



SMC Business Councils  
600 Cranberry Woods Drive, Suite 190  
Cranberry Township, PA 16066  
Phone: 412.371.1500, Fax: 412.371.0460  
www.smc.org

**SMC Business Councils**  
**Tax & Workforce/Labor/Transportation Call**  
**1/24/2019**  
*Notes embedded in blue.*  
**Eileen Anderson, Director, Government Relations**

*Attending: Joe Weinkle, Ryan Fronius, David Ross, Don Johnston, Jezree Friend, Caleb Zelanko, Eileen Anderson.*

**For reference:** SMC's 2018 State Position Papers  
<https://smc.org/wp-content/uploads/2018/04/2018-STATE-POSITION-PAPERS.pdf>

## TAX

**SENATE and HOUSE – Section 179 expense deduction for individual taxpayers (which includes most pass-through entities which are generally small businesses) – SMC proposes an increased Section 179 expensing to conform with the federal Tax Cut & Jobs Act**

- Section 179 of the tax code allows businesses to deduct, up front, a certain amount of (accelerated) depreciation for qualifying asset purchases, such as computers, vehicles, machinery, and office furniture in the year of purchase instead of depreciating these acquisitions over multiple tax years. When the total purchases in a year exceed a specific total amount or cap, the direct expensing allowance cannot be used. In Pennsylvania it remains at \$25,000. The amount of Section 179 depreciation allowable for deduction in Pennsylvania should be raised to the \$1 M per taxable year with a phase-out of \$2.5 M to conform with the new Tax Cut and Jobs Act.

**RECOMMENDED STATUS:** *Support actively.*

**Anderson:** *Last year we supported conforming Section 179 to the levels in the Tax Cut and Jobs Act. See SMC's 2018 State Position Papers*

**Johnston:** *It needs to be updated to help our small businesses (that are mostly S corporations, LLC's and partnerships whose income is taxable income is paid by the individual owners). PA now allows only \$25,000 of annual Section 179 deduction with it being phased-out at-\$200,000. These figures were good decades ago but should be updated.*

**Anderson.** *I spoke to someone at the Tax Foundation while in Washington, and they suggested that it would be very beneficial for small businesses.*

**Johnston:** *Conforming Section 179 to the federal tax code should be a strong focus of our group.*

**SENATE - Phases in a reduction of the Corporate Net Income tax (CNI) over 6 years.**

- Taxable Year-Tax Rate January 1, through December 31, 2019-9.99%
- January 1, 2020, through December 31, 2020-9.49%

- January 1, 2021, through December 31, 2021-8.99%
- January 1, 2022, through December 31, 2022-8.49%
- January 1, 2023, through December 31, 2023-7.99%
- January 1, 2024, through December 31, 2024-7.49%
- January 1, 2025, and each taxable year thereafter-6.99%

**RECOMMENDED STATUS:** Do not oppose or support.

**Anderson:** *There will be a big push to decrease the CNI rate. The PA Chamber sponsored a study of PA's tax structure, all aspects, and reduction of the CNI rate is definitely the top tax goal for many. A phase-in seems the most doable. Some legislation proposes a drastic decrease effective immediately.*

**Weinkle:** *The suggested rates really vary from looking at different proposals.*

**Anderson:** *In previous years we have supported a decrease; the theory was there would be trickle-down effect to smaller businesses in the supply chain.*

**Johnston:** *SMC likely does not have many members who are taxed as C-corporations who would be effected by this issue. SMC's time is better spent focusing on Section 179 conformity. Small manufacturers would really benefit from that.*

### **SENATE - Expands the 21st Century Manufacturing Innovation and Reinvestment Deduction Act that allows manufacturers with private capital investments of a specified amount to claim a deduction against their taxable income for up to five years.**

- Currently it incentivizes PA manufacturers that make capital investments in excess of \$100 M. This program has been well received by the business community; however, many smaller-scale businesses have also asked us how they can use the program to grow their businesses and create additional jobs.
- We will amend the Tax Reform Code to provide an incentive to PA manufacturers that make a private capital investment of \$1 million - \$10 million, who will be able to claim a 10% deduction against their taxable income for five years.
  - It is not a tax credit, it is non-deferrable, or transferable to another entity.
  - It cannot reduce the manufacturer's tax liability by more than 50%.
  - It will permit PA to provide an incentive to attract capital investment in our manufacturing facilities now without any negative impact on our budget process or revenue collections.

**RECOMMENDED STATUS:** Support passively.

**Anderson:** *I included this and questioned whether it would be more beneficial to small manufacturers than updating the Section 179 limits.*

**Johnston:** *No it would not be. I don't see how they can offer this tax break to larger businesses and not allow it for smaller business. It seems unconstitutional. I don't see many businesses making capital investments of \$100 M, they should allow small businesses a similar tax break but at lower thresholds. As far as which is more beneficial, Section 179 or this tax break, it would be Section 179.*

**Zelanko:** *Does it mean venture capital investment and private capital and not borrowing from a bank? He thought it would be very beneficial to venture capitalists.*

### **SENATE - Legislation to Conform the PIT to the Federal Opportunity Zones (OZ) Program which was enacted as part of the Federal Tax Cuts and Jobs Act in 2017.**

- The Governor of each state is authorized to designate a certain number of Opportunity Zones into which private investment can flow through Opportunity Funds.
- It uses low-income community census tracts as the basis for determining areas of eligibility throughout the state.

- Investors in the Opportunity Funds (OF) are eligible to receive federal tax deferrals/eliminations and other tax benefits on unrealized capital gains associated with these investments.
- OFs are authorized to invest in OZ's property such as stock in a domestic corporation, capital or profits interest in a domestic partnership, and tangible property used in a trade or business of the Opportunity Fund that substantially improves the property located in designated OZs.
- The OZ program is an inventive approach to unleashing private investment that will support low-income urban and rural communities throughout PA. .
- PA should enhance the federal program by providing similar tax benefits at the state level in order to boost the attractiveness of the program and to foster even greater economic growth and opportunity in our low-income communities.
- The combined effect of a federal/state collaboration could set us apart from how the program might be utilized in other states, thereby allowing Pennsylvania to become a leader among states in attracting OF investments.

By conforming PA's personal income tax to the federal rules that allow for the tax deferral/elimination of only those capital gains associated with the OZ program, we can utilize our Tax Code to direct private investment where it is needed most while being fiscally responsible at the same time.

**RECOMMENDED STATUS:** Do not oppose or support.

**Action:** Educate members about OZs.

**Johnston:** *These programs are great for investors who have millions of dollars. The tax benefits are fantastic. It's not logical why they want to give another tax break to these same investors who are savings millions in federal taxes. Why not give a tax break to other investors in different distressed areas?*

**Anderson:** *All of the regulations are not yet available.*

**Friend:** *Erie is involved with OZs. It would benefit small businesses to get the full benefit. The problem is many are not aware.*

**Johnston:** *The action should be education posted or distributed to members to build awareness.*

**Friend:** *Flagshipopportunityzones.com has a lot of information. That will clarify some of the questions.*

*It should also be noted this isn't just for the "big" investors with millions it is for the small business owner who sell an asset or equipment and can invest the capital gains from the sale. Those businesses within an opportunity zone footprint could be the recipient of these investments when done through an opportunity zone fund. Because this can be fairly confusing at first is why education needs to be provided.*

## WORKFORCE

**HB 2102 of 2018 - Establishing the Department of Business, Tourism and Workforce Development. and transferring specific powers and duties from the Departments of Labor and Industry, Community and Economic Development and the Department of State to the new department.**

- Sources say it requires some study and will be re-introduced this session.

**RECOMMENDED STATUS:** Hold until legislation is published for this session.

**HB 2115 of 2018 - Consolidation of Job Training Programs from the Departments of Human Services and Labor & Industry to the Department Community and Economic Development.**

- This will consolidate them into one easy to navigate system instead of being fragmented and spread across numerous state agencies. It also provides for a State Apprenticeship & Training Council.

**RECOMMENDED STATUS:** Hold until legislation is published for this session.

**HOUSE - Programs of Study for High Priority Occupations will prepare students for high priority occupations which gives the opportunity to earn family sustaining wages.**

- The Department of Education will identify programs of study that train individuals with a focus on those that provide industry recognized credentials, including both credit and non-credit programs that can be earned in less than 2 years. Students will be eligible for scholarships from the Pennsylvania Higher Education Assistance Agency.

**RECOMMENDED STATUS:** Support passively

**HOUSE - Career and Technical Education (CTE) Investment Incentive Program within part of the CTE legislative package will provide tax credits to businesses that contribute to CTE partnership organizations.**

- Business contributions can be used to provide CTE scholarships or the purchasing of industry standard equipment.
- This program is unique yet modeled after successful elements of the Educational Improvement Tax Credit Program.
- There are almost 200,000 unfilled skilled jobs in PA. This bill will partner business investment with our CTE students and secondary and postsecondary institutions to fill those position and grow PA's economy.
- This legislation specifically acknowledges our economy's need for more individuals with skills in the trades.

**RECOMMENDED STATUS:** Support passively

**Ross:** *Workforce is very important. We need people who can fill jobs openings, but there are bigger issues that need to be resolved that are not touched by job training programs. Some lack driver's licenses and transportation to a job. We should add some of these points to the legislation.*

## **LABOR**

**HOUSE - Minimum Wage Reform Paying our workers enough to be customers creates real economic growth.**

- This plan phases in the increases to the minimum wage rate gradually, to alleviate the burden on employers and small businesses. Sixty days after enactment, PA will raise the minimum wage rate to \$9.50/hr. with small incremental increases every two months thereafter for a period of two years.

**Anderson:** *we have a fully developed minimum wage position.*

## TRANSPORTATION

**SENATE - The PA Clean Transportation Infrastructure Act creates a framework for building transportation infrastructure to support the new generation of electric, natural gas and hydrogen vehicles and equipment that will be an important part of PA's economic development in coming years.**

- Shifting Pennsylvania's transportation systems to cleaner, more efficient resources offers a unique opportunity to advance our energy, environmental and economic development goals. Every year, we see new electric and naturally-powered vehicles introduced in the market, and these cars, trucks and buses are rapidly becoming more affordable and well-suited to our lifestyles. We're also seeing increasing opportunities to use electricity for off-road uses in our ports, airports and heavy equipment to drive our economy forward.
- As increasing numbers of PA consumers and businesses consider choosing alternative energy vehicles, and our businesses look for opportunities to invest in cleaner, more efficient equipment, we must ensure that well-planned charging and refueling infrastructures are deployed in the state.
- Under this proposal, PA will:
  - Establish a state goal of increasing electrification by at least 50% over currently forecasted levels by 2030;
  - Require the development of regional electrification infrastructure frameworks for our metropolitan areas;
  - Direct electric utilities to develop infrastructure implementation plans to support the development of these networks under PA PUC oversight; and Direct the Governor to submit recommendations to the Legislature and PUC on strategies to promote other clean transportation options, including CNG and hydrogen.
  - Alternative fuel vehicles provide a great opportunity to help our economy and our environment at the same time. Through good planning and regional collaboration, we can move PA to leading edge of adopting these technologies.

**RECOMMENDED STATUS:** Support passively

**Anderson:** *This fits in nicely with some of the points discussed by the Energy Group. I will share this bill with Bob Henry. Transportation is a regional issue and I will contact PAT and the Southwest Planning Commission to see what opportunities they have available for in which we can participate and have a say in regional transportation.*

**Ross:** *I am interested in that.*

**Zelanko:** *I am aware that businesses have a lot of problems finding workers. Section 179 and the private capital deduction for smaller businesses sound good. Transportation in Pittsburgh is really lacking. I would hope that Pittsburgh would be in front of the curve than behind the curve. We should pursue the transportation piece.*