



PENNSYLVANIA

March 12, 2012

Hon. Kerry A. Benninghoff
Majority Chairman
House Finance Committee
41B East Wing
Harrisburg, PA 17120-2171

Hon. Phyllis Mundy
Minority Chairman
House Finance Committee
36 East Wing
Harrisburg, PA 17120-2120

Dear Representatives:

The National Federation of Independent Business (NFIB) is Pennsylvania's leading small business advocacy organization representing 14,000 small and independent businesses that operate in virtually every sector in Pennsylvania's economy. We thank you for the opportunity to comment on House Bill 2230, Printer's Number 3152, sponsored by Rep. Seth Grove.

At the local level, small business owners contribute significantly to the local tax base through local property taxes for their business and residence, local nuisance taxes and local income taxes. Recently the Council on State Taxation (COST) rated Pennsylvania's property tax administration system as the second worst in the nation. Our members certainly would agree. But tax compliance in other areas also has become increasingly more complex in recent years - particularly compliance with Pennsylvania's Local Services Tax (LST) and the cumbersome, complex and confusing system now in place to collect Local Earned Income taxes (EIT) under Act 32.

Small employers report that dealing with tax complexity is currently their fifth-most-pressing business concern. The cost of tax paperwork is the most expensive paperwork burden that government imposes on small business owners -- as much as \$74 per hour in tax preparation and compliance costs.

NFIB members applaud the efforts of this bill's sponsor and members of the committee for their interest in reducing school and local governments' reliance on property taxes. However, we are concerned the new taxing authority granted to local governments under this legislation could make an already complex compliance system even worse and further exacerbate the noncompetitive business environment in Pennsylvania. We recommend this committee consider amending the legislation to develop a single, standard collection method for local service taxes, earned income taxes and local personal income taxes. This change would reduce the confusion and compliance headaches of smaller firms who are trying to follow local tax collection law.

Another key concern for small business owners is that this legislation appears only to provide a path for local governments and schools to transition away from dependence on property taxes but does not address the proliferation in local government and school district spending. A concern is that this legislation merely enables these government units to impose new taxes but does not eliminate property taxes or impose stricter requirements for them to justify new or higher tax rates. Therefore, NFIB recommends the committee amend the bill to require local tax referenda to ensure that local government and school districts can justify future revenue requests and protect businesses and taxpayers against frivolous spending and unnecessary tax increases.

Also, allowing counties to impose an additional 1-percent sales tax not only will affect customers' purchasing patterns; it also would raise the complexity of collection and administration for businesses that sell products in multiple jurisdictions. For every dollar in state sales tax that a small business owner collects and remits, it costs thirteen cents in bookkeeping and compliance.

Finally, one cannot have a thoughtful conversation about property tax reform without discussing prevailing wage mandates. Local government officials from across the state have acknowledged that these mandates prevent them from being as efficient with taxpayers' dollars as they would like to be. Under the Prevailing Wage Act, non-market wages must be paid on public projects of more than \$25,000, an amount which has not been updated since the 1960s. This requirement increases the costs of construction, repairs and maintenance by a minimum of 20 percent. NFIB members stand in solidarity with associations representing county, local government and school district officials in support of legislation like House Bill 1329, currently before the state House of Representatives, that would raise the threshold for smaller projects while lowering costs to taxpayers.

Thank you in advance for your consideration of NFIB's position on this issue. If you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,



Kevin Shivers
State Director