Testimony

Submitted on behalf of the
Pennsylvania Chamber of Business and Industry

Impact of Governor Wolf's Proposed Budget on Small Businesses

Before the:
House Republican Policy Committee

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Good afternoon, Chairman Causer and members of the House Republican Policy Committee. My name is Sam Denisco, Vice President of Government Affairs for the Pennsylvania Chamber of Business and Industry – the largest, broad-based business advocacy organization in the Commonwealth. Our membership, which is nearly 10,000 strong, consists of sole proprietors to Fortune 500 companies and represents all industry sectors in every region of the state. Thank you for providing me with the opportunity to present the perspective of the Commonwealth's business community on the governor's 2021-22 budget proposal and how it would impact Pennsylvania's small businesses.

It goes without saying that the COVID-19 pandemic has severely altered Pennsylvania's economic landscape. As we approach the one-year anniversary of the virus' first appearance in the Commonwealth, businesses continue to experience its impacts. Our unemployment rate remains higher than pre-pandemic levels; that's in addition to the significant number of Pennsylvanians that have left the workforce completely due to the pandemic. In the months since the original business shutdown orders – and especially as a result of sudden additional shutdown orders over the course of the year on the hospitality industry - businesses across the Commonwealth continue to struggle, and many small businesses are barely hanging on by a thread. As the virus caused economic activity to essentially grind to a halt for several months, Pennsylvania's fiscal outlook also took a hit, and the state faces a $2.5 billion shortfall as we head into budget negotiations for the upcoming fiscal year.

With the number of challenges currently facing the Commonwealth, it was disappointing that instead of proposing innovative solutions to help our state survive this tumultuous time, the governor chose to unveil a spending plan that would significantly increase the cost of doing business in the state and make Pennsylvania less competitive overall. This proposal is a throwback to the governor's previous budget plans, which frequently called for tax hikes in order to increase spending. This time around he has proposed an aggressive tax increase on the backs of small businesses in order to raise government spending by over 11 percent – all in the midst of a pandemic. His plan – which includes a $15 an hour mandated minimum wage increase and a nearly 50 percent increase to the Personal Income Tax – will devastate many of the small businesses in our communities that are already working to overcome countless challenges.

As noted by the Tax Foundation in its report "Pennsylvania: A 21st Century Tax Code for the Commonwealth," the Commonwealth's PIT is "undoubtably the best feature of Pennsylvania's tax code, with its low rate and relatively simple and neutral structure." In fact, if not for the PIT, Pennsylvania would rank much worse than our current placement of 27th on the [Tax Foundation's 2021 State Business Tax Climate Index](). The tax was first imposed in 1971 at a rate of 2.3 percent. Since then, the rate has been cut six times – going as low as 2.0 percent – and increased five times, remaining at the current 3.07 percent rate since 2004. The flat 3.07 percent rate is applied on a broad income base – which has allowed Pennsylvania to have one of the lowest PIT rates in the country. According to the U.S. Small Business Administration, there were 1,074,787 small businesses in Pennsylvania in 2020. This figure includes both sole proprietorships and employer businesses. The vast majority of small businesses in the Commonwealth pay individual rather than corporate net income taxes.

Make no mistake, the governor's plan to raise the PIT from 3.07 percent to 4.49 percent is a tax increase on small businesses. His plan attempts a highly questionable bypass of the state constitution's uniformity clause by imposing special tax provisions – while some employers might be spared, this tax will hit many other small businesses, for some, when they can least afford it. It should be noted that unlike businesses that are subject to the state's Corporate Net Income tax, small businesses cannot carry forward net operating losses from previous years. Legislation proposed by House Republicans to allow small businesses to utilize a net operating loss deduction would go a long way in providing assistance to struggling small businesses. However, without that change, the governor's PIT proposal would place a nearly 50 percent tax increase on many small business owners whose businesses have been devastated by the pandemic and are already at risk of closing with no recourse to absorb losses that occurred during the early part of the pandemic.

Combined with this is a renewed push to more than double the state's minimum wage to $15 an hour. The governor's plan calls for an immediate increase to $12 an hour starting in July 2021 – a 65 percent increase over the current rate, with incremental increases to $15 by 2027 – a 107 percent increase over the current rate. The proposal would also eliminate the tipped wage – which would equate to an immediate 235 percent increase in costs for those employers (a majority of which are restaurants) and a 500 percent increase in costs when the rate goes to $15. These are massive cost increases for small business owners, many of which are still recovering from strict shutdown orders and still subject to crippling capacity limitations.

The impact a government mandated wage increase would have on jobs cannot be ignored. According to a recent report by the nonpartisan Congressional Budget Office, an increase to $15 an hour would lead to the loss of 1.4 million jobs nationwide, around 500,000 *more* than the number of people they project will be helped out of poverty. A Pennsylvania specific study conducted last session by the Independent Fiscal Office found that an increase to $12 could lead to the loss of 34,000 jobs across the Commonwealth. This mirrors much of the feedback we have received from our members – who have said this type of cost mandate would force them to make very hard decisions regarding reducing hours and/or eliminating positions; increasing the prices for goods and services; and/or curtailing any possible expansions.

Over the years, this issue has become highly politicized, with proponents often skewing the facts and pointing to a mandated wage increase as the panacea for helping low wage workers out of poverty. As the debate continues at both the state and federal levels, policymakers should keep in mind the demographics of the average minimum wage earner in Pennsylvania. According to the Pennsylvania Department of Labor and Industry's Minimum Wage Advisory Board report due out this week, in 2020 there were an estimated 74,400 Pennsylvanian's earning the minimum wage – a nearly 18 percent reduction from last year. This represents approximately 1.3 percent of the working population of Pennsylvania; and it is likely this number is actually inflated since it includes tipped workers who often earn far greater than minimum wage. Over the last 5 years, the number of minimum wage earners has declined by over 50 percent, though it is assumed some of the decrease in 2020 was due to the pandemic and business shutdown orders. Additionally, according to the report, 84 percent of minimum wage earners have no children; 34 percent have family incomes of $75,000 a year or more and 22 percent have family incomes of $100,000 or more; and nearly 70 percent were younger than 25 years old.

There's no disputing that a higher minimum wage will benefit some workers. However, there will also be many unintended consequences that would negatively impact the very people these policies aim to help. The job loss resulting from government mandated wage increases is real and a reduction in jobs is the last thing the Commonwealth needs as we work to move past this health and economic crisis. Rather than punitive blanket mandates, we encourage lawmakers at all levels of government to pursue policies that help low-wage earners without risking jobs, like stronger job training programs and more targeted support to low-income families. Some states, for example, have implemented an Earned Income Tax Credit. Numerous states have implemented a state Earned Income Tax Credit to supplement the federal program, which targets support to lower-income working parents. Even bringing more awareness to the federal program would be constructive – Philadelphia's Department of Revenue estimates that in the city alone, over 44,000 eligible Philadelphians never applied for the federal EITC leaving over $111 million on the table.

Instead of providing a bold vision for how the Commonwealth can recover and move forward, the Wolf administration has fallen back on typical government tax and spend proposals. He has pushed for iterations of these proposals in the past and they continually fail to gain legislative support. As noted in a recent *Pittsburgh Post-Gazette* editorial, the governor's budget proposal reads like a progressive wish list. It is not a real blueprint for Pennsylvania's post-pandemic recovery. With so many unknowns surrounding our future, it's counterintuitive to place additional burdens and hardships on the same people we're relying on to drive our economic recovery forward.

The PA Chamber is committed to working with elected officials to enact policies that will help businesses overcome pandemic-related hurdles, while laying the ground work to ensure our economy can not only grow but stand out as a model for what economic recovery from this pandemic should look like. Through our "Bringing PA Back" initiative, we – along with our local chamber and industry partners – have developed a pro-growth, forward-thinking agenda that will help employers who are struggling to recover from the pandemic; while also encouraging additional investment and attracting emerging and expanding industries to the Commonwealth. This strategic approach focuses on improving the state's competitiveness, infrastructure and workforce in order to bring about equality of opportunity for every Pennsylvanian and aid in the state's economic resurgence. Commonsense reforms – such as targeted COVID liability protections; streamlining and simplifying the state's tax code; reducing regulatory burdens; and creating greater government efficiency and connectivity – are all central to this vision of building a stronger, more inclusive economy.

As we collectively work to jumpstart our economy and rebuild the Commonwealth's workforce, it is critical that government and the private sector work together to set a new course for Pennsylvania.

Thank you. I'd be happy to answer any questions.