



**Where PA  
Businesses  
Go to Grow**

# If We Fix Small Businesses and Small Manufacturers, We Will Fix Jobs

There is a disconnect between government and small businesses and small manufacturers. Small businesses need a national strategy to coordinate existing small business resources so they can be deployed effectively and efficiently. The Small Business Administration, the Small Business Office of Advocacy and the National Small Business Ombudsman should be empowered and have a seat at the table. The voice of small businesses and small manufacturers should be heard. They should be represented at the President's Council on Jobs and Competitiveness.

Government has developed a number of programs but they often do not work and small businesses are unable to benefit. They either have the wrong delivery system, the wrong trigger point or are temporary patches. For example, programs that incent employers with tax credits are not beneficial for those who do not make a profit. Another example would be temporary patches to problems like the alternative minimum tax and the estate tax. Government should be working on the root of the problems instead of taxpayer band aids.

Small businesses need:

- Manageable health insurance cost so we can attract and retain our employees
- A sensible regulatory environment so we can operate our businesses more efficiently
- A predictable tax structure so we can plan to reinvest in our businesses
- Access to capital so we can manage cash flow needs and develop new markets

Small manufacturers need a national strategy that will grow our domestic manufacturing base by:

- Reducing structural costs (health insurance, regulation, taxation, labor)
- Promote fair trade
- Addressing workforce needs

For the past 65 years, SMC Business Councils has helped Pennsylvania businesses grow and prosper. With offices in Pittsburgh and Harrisburg, SMC has thousands of members in the service, manufacturing and commercial sectors. A nonprofit organization, SMC's professional staff operates a variety of business advocacy and development programs and services exclusively for its members.

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## It's all about Jobs.

# If We Fix Small Businesses and Small Manufacturers, We Will Fix Jobs.

When unemployment exceeds 9%, it's more important than ever for small businesses and small manufacturers to expand and create jobs. However, small businesses and manufacturers are burdened by the direct and indirect costs of health care, taxes, labor, and regulations and hampered by lack of capital. Uncertainty about policies and new regulations inhibits businesses from investing in expansion and hiring. America must create strategies for small businesses and small manufacturers that place them on a level playing field with our global competitors. Congress can help create the conditions that will enable small businesses and small manufacturers to grow and create jobs here in America.

### 1. Reduce the Cost of Health Insurance

SMC has many concerns regarding the impact of the Patient Protection and Affordable Care Act (PPACA) and its impact on small businesses. The number one problem small businesses have with health insurance is that it simply costs too much.

- ACTION ITEM: SMC Supports S. 1049 & H.R. 2676. "The Small Business Health Relief Act" repeals or revises key provisions of the PPACA to provide relief to small employers. It repeals the premium tax on health insurers, which will generate an estimated \$47.5 billion from 2014 – 2019 and be passed on to small businesses and the self-employed. It will raise the cost of health insurance for small businesses, their employees, and their families. The fees will not affect self-insured corporate and union-sponsored plans. The bill restores and expands use of consumer driven health plans and repeals employer responsibility requirements.**
- Stop shifting costs and burdens to the private sector. Cost shifting has had a profound impact on the small business health insurance costs. On average, Medicare and Medicaid reimburse providers at 80% of actual costs of services. Providers then charge commercially insured patients about 20% more, to offset their Medicare/Medicaid losses.
- Small businesses want and need more choices. Tax subsidies should be available inside and outside of the new Health Insurance Exchanges. The Obama administration has exempted more than 1,500 large corporations and union-sponsored health plans from the PPACA. At minimum, small businesses need flexibility.
- SMC supports greater health care cost-containment initiatives.

- Reform the delivery system .The federal government should lead the health care system as quickly as possible to a payment system that rewards providers for good patient outcomes, efficiency, and the highest objective quality of services (i.e., value-based payment).
- Enact Comprehensive Medical Liability Reform. The Congressional Budget Office estimates that medical malpractice reforms would reduce health care spending by \$11 billion, most of this due to decreased defensive medicine.

## 2. Reduce the Cost of Regulations & Labor

When unemployment is over 9%, it is time to use restraint, common sense, and rethink the regulatory burdens imposed on small businesses. Small businesses need sensible regulations and freedom from cumbersome mandates. The Small Business Administration found that businesses with less than 20 employees averaged annual regulatory costs of \$10,585 per employee, 36% higher than the compliance costs of larger firms with (500 or more employees). Strengthen and listen to programs already in place that are the watchdogs for small business (National Ombudsman, Office of Advocacy).

- **ACTION ITEM: SMC supports S. 474, which amends the “Regulatory Flexibility Act” to revise the regulatory process with respect to small entities.**

SMC opposes the National Labor Relations Board’s (NLRB) continued attempts to accomplish through regulation what couldn’t be achieved through the legislative process and their efforts to prevent Boeing from building a new plant in South Carolina, a right-to work state.

- **ACTION ITEM: SMC Supports S. 964 & H.R. 2587 - “Protecting Jobs from Government Interference Act,” which prohibits the NLRB from blocking a company from moving jobs to another location.**

We applaud President Obama’s delay of implementation of the Environmental Protection Agency’s (EPA) new regulations on ozone standards.

Both the NLRB and the EPA should focus on policies that will create jobs and get the economy moving again, not additional burdens.

## 3. Increase Access to Capital

The number one capital need for small business is working capital. Individual requests are usually for less than \$250,000. SMC supports:

- **ACTION ITEM: Redirect existing funds from programs within Small Business Administration that are not meeting this need to provide 90% guarantees for contract loans, purchase order loans and unsecured working capital loans under \$250,000.**

- Open government guaranteed loan programs to non-bank lenders who in many cases are better capitalized, not saddled with high-risk commercial real estate loans in their portfolios, and have the infrastructure to lend small working capital amounts.
- Expand lending through the Treasury's Community Development Financial Institutions (CDFI) program by reallocating unused funds from the Small Business Lending Fund. Re-define the "underserved markets" targeted by CDFI lenders to include not only historically underserved and economically disadvantaged small businesses, but small businesses who were viable prior to the recession but now find themselves underserved and economically disadvantaged.

## 4. Reduce Taxes and Reform the Tax Code

Short term - Reduce the tax burden on small businesses and individuals. Increasing taxes on the heart of the "engine" impairs their ability to innovate, expand, hire and train.

- **ACTION ITEM: Extend or make permanent the 2001-2003 Lower Individual Tax Rates - The top tax rates are set to expire at the end of 2012 rising to 36% and 39.6% from 33% and 35% respectively for individuals and joint filers earning more than \$200,000 and \$250,000.**

Long Term - Enact tax reform that is fair and consistent for small businesses. Broad reform of the entire tax code is necessary for all not just corporate entities. Seventy-five per cent of small businesses are structured as pass-through entities, Sub-Chapter S corporations, partnerships, and sole proprietorships. They pay taxes at the individual rate and may lose valuable deductions such as interest payments and accelerated depreciation in a corporate rewrite without benefiting from lower rates. Allowing the smallest businesses to pay much higher taxes on their business income than multinational, multi-billion dollar corporations undercuts any semblance of fairness. Tax reform should:

- **ACTION ITEM: Simplify the tax code by reducing individual tax rates and establishing three tax brackets with rates of 8–12%, 14–22%, and 23–29%. The top individual tax rate should be aligned with the corporate tax rate.**
- Streamline the tax code to alleviate the costs of compliance.
- Establish a single, corporate tax rate between 23% and 29%.
- Repeal the alternative minimum tax.
- Enact permanent estate tax relief that doesn't stop the transfer of company ownership and assets. Adopt an individual exemption of \$5 to \$10 million indexed for inflation and a top marginal rate of 35%.
- Enact a permanent solution for accelerated depreciation to spur investment by allowing businesses to write-off investments in capital assets in the year of purchase.

## 5. Invest in and Grow Our Domestic Small Manufacturer Base

We need a national strategy for small manufacturers that reduces their structural costs, creates global fair trade and addresses workforce needs.

Manufacturing is the engine that drives our economy; manufacturing generates wealth. We must keep and grow our manufacturing base to create high-paying jobs that permit spending on other goods and services offered by small businesses. We must keep manufacturing jobs here in the United States rather than establishing strategies that permit expanded import of goods and promote decisions to move operations to foreign countries.

If we are going to increase the number of manufacturing jobs, Congress must act on behalf of the needs of small manufacturers. They need:

- Reduce their structural costs including the increasing costs of health insurance, compliance with regulations, and taxation and labor.
- Free trade must equal fair trade - The U.S. faces an unfair trading system on the global front. In order to get the United States out of the debt crisis, the trade deficit must be reduced and trade must be rebalanced. We are not asking for protection, only a fair trading system. Competition should be open and fair.

Enact legislation to neutralize the illegal trade advantage competing nations gain by manipulating currencies.

- **ACTION ITEM: Enact S. 328 & H.R. 639 – “The Currency Reform for Fair Trade Act.” The pegging of currencies to the U.S. dollar must stop. This is the most offensive form of government intervention in the trading system. Countries such as China use it to give their domestic manufacturing base a 30-40% price advantage in the global market.**
- Korea Free Trade Agreement - Do not negotiate away existing trade laws without the establishment of true mutual free and fair trade agreements. Domestic manufacturers are losing market share to imports. SMC is concerned that passage of the Korea Free Trade agreement may lead to increased loss of sales and manufacturing jobs.
  - As the Administration works to double exports, expand the goal to include balancing our trade account so that gains in exports are not overwhelmed by increased imports.
  - Help small manufacturers access international markets. Provide services to help compete, particularly against competitors in countries where the governments subsidize and promote imbalanced exporting to the United States. Strengthen programs already in place, improve their access to Small Business (EXIM Bank and others)

- Stop letting less developed countries off the hook on international trading rules. Keep U.S. trade laws strong and strictly enforced to provide a level playing field for our workers and businesses.
- Promote our skilled workforce. Refocus on technical and vocational education, providing a seamless program that bridges high school and post-secondary education to produce the next generation of highly skilled manufacturing workers.

For the past 65 years, SMC Business Councils has helped Pennsylvania small businesses join together to foster mutual interests. SMC has several thousand members in the service, manufacturing and commercial sectors. Companies include a diverse range from small family businesses to manufacturers of solar panels.

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