



SENATE REPUBLICAN

POLICY COMMITTEE

January 9, 2007

Senators Should Support the Small Business Package to the Minimum Wage Increase Bill

In S. 2, Democrats have proposed a three-step, 41-percent increase in the federal minimum wage. The proposal would raise the hourly rate by \$2.10 – to \$7.25 – over 26 months. This 41-percent increase would be the largest ever in the history of the federal minimum wage.

Despite the intentions of helping the working poor, the effect of a minimum wage increase would be the opposite for some workers. There is no question that the minimum-wage workers who keep their jobs would see an increase in hourly pay. However, some would see lower earnings from reduced shifts; others would see reduced benefits. Some would lose their jobs, and others would be unable to find a job. Raising the minimum wage could prevent some workers from getting their foot on the first rung of the economic ladder.

To counteract the job losses associated with increasing the minimum wage, Congress should enact provisions that encourage the creation of new jobs, similar to provisions that were enacted during the last minimum wage increase in 1996. A minimum wage increase coupled with tax and regulatory relief for small businesses will alleviate the burden of a minimum wage increase on small businesses while simultaneously ensuring that the economy continues to grow, not stall.

Small Business Jobs Engine

“This is important forward-looking legislation. It gives millions of hard-pressed workers a well-deserved raise...and creates useful tax incentives for the benefit of small businesses and their employees.”

President William Clinton, Statement on Signing the Small Business Job Protection Act of 1996 on August 20, 1996 – the last minimum wage increase.¹

Due to Republican pro-growth policies, the U.S. economy is on a course that Congress should emulate: 3.4 percent annualized real GDP growth so far this year, 14 straight quarters of

¹ <http://www.presidency.ucsb.edu/ws/print.php?pid=53209>

positive capital investment, tax receipts up 11.8 percent in fiscal year 2006 (FY06), and labor productivity growth of more than 3 percent over the past five years.

Targeted tax breaks will encourage new job growth, a practice that Congress must proactively support. In the past three months, there have been 407,000 net new jobs, which is on top of 40 straight months of job growth. In addition, employment has increased in 49 states within the past year.

Small businesses are the backbone of our economy and Congress must encourage their economic growth:

- ❖ small firms represent 99.7 percent of all employer firms
- ❖ small firms employ half of all private sector employees
- ❖ small firms pay more than 45 percent of total U.S. private payroll
- ❖ small firms have generated 60 to 80 percent of net new jobs annually over the last decade
- ❖ small firms create more than 50 percent of non-farm private gross domestic product (GDP)
- ❖ small firms employ 41 percent of all high tech workers (such as scientists, engineers, and computer workers)
- ❖ small firms comprise up to 97 percent of all identified exporters and produced 28.6 percent of the known export value in FY 2004.²

Small Business Package

The tax and regulatory package contains provisions that will mitigate the burden imposed by increasing the minimum wage, help small businesses to stay competitive, and keep our economy growing. Below are the provisions of the likely Republican small business package.

Businesses can only create jobs when they are growing, and one of the most effective ways to encourage business growth is to reduce the cost of new business investment by allowing businesses to write off the investments immediately or to depreciate investment costs more rapidly. Both accelerated depreciation and expensing encourage business expansion by reducing the marginal effective tax rate on the new investments. As businesses expand, they hire additional employees to support their operations. To address this, the package contains:

- **Depreciation for New Restaurant Construction:** The restaurant industry is the largest U.S. employer, after the government; nearly one-third of Americans get their first job in a restaurant.³ While such entry-level job opportunities will likely be reduced if the minimum wage is increased, Congress can encourage the creation of new restaurant jobs by making it more cost-effective to build new restaurants. Renovations to existing restaurants are depreciated over 15 years, but components of new restaurants must be depreciated over as long as 39 years; there is no justification for the disparate treatment.

² <http://www.sba.gov/advo/stats/sbfaq.pdf>

³ "Restaurant Industry Facts" (available at www.restaurant.org/research/ind_glance.cfm).

- ✓ Conforming new construction with renovations will encourage more new restaurants to be built, which will increase restaurant employment opportunities.
- **Small Business Expensing:** To encourage small business owners to continue expanding and creating new jobs, even in the face of increased labor costs, Congress should extend the increased small business expensing level, which is currently set to expire at the end of 2009, for five more years (through 2014). For 2006, the inflation-indexed expensing limit is \$108,000.
 - ✓ Allowing small-business owners to immediately expense critical investments is key to the expansion of the economy. It puts money back into the hands of small-business owners, thus promoting the hiring of new workers. Higher expensing limits will not only reduce the costs of capital investments, but they will also eliminate depreciation record-keeping requirements.

Some of the increased labor costs associated with increasing the minimum wage can be offset for small businesses by reducing some of their other administrative costs. The package also includes:

- **Cash Accounting for Small Businesses:** Allow the cash-basis accounting method to be an option for small businesses with gross revenues up to \$10 million, regardless of inventories.
 - ✓ Allowing cash-basis accounting will reduce administrative costs for small businesses.
- **Small Business Regulatory Reforms:** A package of regulatory reforms that will assist small businesses in complying with new federal regulations will reduce administrative costs for small businesses.
 - ✓ Small businesses bear the largest burden of federal regulations. They face an annual regulating cost of \$7,647 per employee, which is 45 percent higher than the regulatory cost facing large firms.⁴

Conclusion

It is essential that the small business package be part of any minimum wage increase. As President Clinton did before him, President Bush supports tax and regulatory relief for small businesses as part of a minimum wage increase. On December 20, 2006, President Bush said, “I support pairing [the minimum wage increase legislation] with targeted tax and regulatory relief to help these small businesses stay competitive and to help keep our economy growing.”

⁴ <http://www.sba.gov/ADVO/research/rs264tot.pdf>