Testimony of Joseph Semprevivo
Before the U.S. House Ways and Means Committee, Subcommittee on Social Security
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Chairman Larson, Ranking Member Reed, and members of the Subcommittee, my name is Joseph Semprevivo. I'm the owner of Joseph's Lite Cookies, a small business based in Florida that makes sugar-free cookies for diabetics. I'm also here representing 30 million small business owners around the country and the 60 million workers they employ.

Thank you for inviting me to speak about the impact of Rep. Larson's proposed tax increase on small businesses and workers.

Rep. Larson's proposal to raise the payroll tax over a number of years by 2.4 percent to 14.8 percent and apply it to all earned income would hurt American small businesses, middle-class workers, and entrepreneurs.

Rep. Larson's plan would increase small businesses' payroll tax burden per employee by 1.2 percent to 7.4 percent. For an employee earning $50,000 a year, the employer payroll tax share would increase by $600 to $3,700, and for an employee earning $100,000 by $1,200 to $7,400.

While the plan calls for a donut hole exemption between the current payroll tax cap of $132,900 and $400,000 of earnings, this ceiling is not indexed to inflation, meaning that within a couple of decades all employees – no matter their income – would be subject to it. Eventually, for an employee earning $200,000 a year, a business like mine would have to pay $2,400 more in payroll tax than we do today.

Consider the impact on a business employing 50 people at an average annual salary of $50,000. This tax increases would raise the business portion of payroll tax costs by $30,000 to $185,000. That increase amounts to the cost of hiring a new entry-level employee or giving significant wage increases to existing employees.

This payroll tax increase would be funded by holding off on hiring or reducing employee wages. It would undo the benefits of the tax cuts that took effect last year and are allowing small businesses like mine to hire, raise wages, and expand.

This payroll tax increase would also directly tax wage increases, which is a peculiar public policy strategy given the bipartisan push to increase the wages of ordinary Americans. Every time I consider raising an employee's wages, I would then have to factor in the increased costs of this associated tax hike to see if the potential pay raise still makes financial sense.

For some small business owners which operate on tiny profit margins, this tax increase will put them out of business. Consider the restaurant industry where profit margins pivot around 3 percent. Labor makes up about one-third of their total expenses. Raising their labor costs by 1.2 percent as this proposal does would be enough to put some of them out of business altogether.

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This proposed tax increase would hurt my employees as much as it would hurt me and other small business owners. For many employees, the payroll tax is the biggest tax burden they face. Raising their payroll tax burden to 7.4 percent will push some workers into poverty. It will prevent other workers from having the funds to make their car or housing payments. It will prevent others from having the funds to take a vacation.

I often hear from my employees about the financial hardships they face and how it's difficult to afford the costs of daily life. By taking more money out of their pockets, this proposal would only make it harder still.

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Particularly negatively affected by this tax increase would be sole-proprietors, which make up the vast majority of small businesses in this country. Sole-proprietors must pay both the employer and employee sides of the payroll tax. This means that a sole-proprietor earning $100,000 would have to pay nearly $15,000 in payroll tax in addition to their federal and state liabilities under this tax proposal – an increase of $2,400 from the current tax regime.

Consider realtors, which are often paid as contractors, meaning they are required to pay both sides of the payroll tax. They earn about $60,000 a year, meaning they would have to pay $1,440 more a year in tax because of this 2.4 percent tax increase. That's gas money for a year.

This tax increase would hurt entrepreneurship rates as workers will be disincentivized from striking out on their own in the face of a nearly 15 percent flat payroll tax on earnings. This is a worrying prospect given the important role that entrepreneurship plays in job creation, standard of living improvements, and economic growth.

I don't know whether I would have started my business if I had to pay 15 cents on every dollar I earn in payroll taxes.

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I notice that there are no other small business owners or ordinary American workers testifying today. I would encourage the committee to get out and talk to these people about whether they want a tax increase before moving forward with this plan. I think you'll find they say they are Taxed Enough Already.

Thank you for your time.