



## Many Firms Reluctant to Hire Because of New Taxes, Rules

REGULATIONS, JOBS, EMPLOYMENT, MANY FIRMS RELUCTANT TO HIRE BECAUSE OF NEW TAXES, REGULATION

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A potential wave of new regulation and higher taxes may be scaring many businesses from hiring, prolonging any rebound in employment, say business groups and economists.

The prospect of increased federal and state regulation and taxes has been particularly disruptive to the hiring plans of small- and medium-sized businesses, which have historically generated about two-thirds of the nation's jobs.

"I don't really see the private sector hiring much in the next few months," says Brian Bethune, an economist at Global Insight. "For the small-business sector there is just too much uncertainty about what happens beyond 2010."

Not only is the Obama administration seeking to push through major overhauls of energy and health care policy, it is also expected to impose dozens of new workplace rules and raise income taxes.

As Washington and Wall Street grow increasingly restless about the unusually slow pace of job creation and the risk of a so-called jobless recovery, key business groups have begun to bang the drum more loudly.

In reporting that its [small business optimism index fell for the second straight month](#) in December, the National Federation of Independent Business Tuesday said members' No. 2 reason for not expanding payrolls was the prospect of government policy initiatives.

Twelve percent said it was not a good time to expand because of the political environment. Over the next three months, 15 percent said they plan to reduce employment, while eight percent plan to create new jobs.

"We're hearing it more and more from our membership," says Bill Rys, the NFIB's tax counsel. "At the federal level, there's uncertainty about tax rates, health care costs, energy costs. You also have what's going on at the state and local levels, with new fees and taxes. They're reluctant to jump back in."

Rys says the effect has been more pronounced in the past few months, perhaps mirroring the legislative progress of the massive health care reform bill, the highly-publicized Copenhagen climate change conference and new EPA rules on carbon emissions, as well as the approach of 2010, when the near decade-long Bush administration tax cuts are expected to expire.

The NFIB has some 350,000 members with an average size of eight to ten employees.

Much like the severity of the recession, the degree of potential government change is a historic first for many business owners.

"When they went into business this isn't something they considered," says Rys.

The American Chamber of Commerce's latest economist forecast cited similar impediments.

"To create jobs we must ease the uncertainty over tax increases as well as health, environmental, labor, legal and fiscal policies," the group's president and CEO Thomas J. Donohue said in a speech Tuesday.

Chamber members are predominantly small companies with ten or less employees.

In a recent interview with CNBC.com, the group's chief economist, Martin Regalia, described a paralyzing uncertainty over policy issues, saying that many members "had adopted an attitude of survival" and "few talked about net new hiring."

If so, that will not go unnoticed. Small businesses were hemorrhaging jobs in the first quarter of 2009 when the recession was cutting deep into the economy.

According to the Bureau of Labor Statistics, companies with 1-4 employees lost 140,000 jobs in that period; firms with 10-19 employees shed 220,000 jobs. (That's the most recent period covered by the data.)

Some of those jobs as well as new ones would normally be created in the coming year.

Coming out of the previous two recessions, companies in the two groups were responsible for net job gains relatively soon after the downturn had ended and picked up momentum as the recovery was established.

In the third quarter of 1993, the 1-4-employee group created about 120,000 jobs, while the 14-20-person group added 60,000. That may not seem like a lot, but the workforce was much smaller then.

Near the peak of the last economic recovery, the two groups were combining for more than 140,000 jobs a quarter.

Though data for the past three quarters isn't available, people who follow small- and medium- sized business say anecdotal evidence from owners is compelling

"A lot of small, medium sized businesses are waiting to see what health care is going to mean, in terms of cost," says John Challenger, of the outplacement firm Challenger, Gray and Christmas, "I think they're also waiting and seeing on the estate tax. The other one I hear the most about is the union issue—the worry that there could be much higher labor costs, that might curtail hiring."

Amid the massive uncertainty, there are levels of certainty.

It's unclear, for instance, what health care will cost small businesses, which tend not to provide it to employees. There's talk of some kind of exemption, but it's not clear yet.

The cost for those providing insurance will go up—at least in the short term; fees for health insurers, medical devices and branded drugs, for instance, start to kick in 2011 and work their way into the broader cost chain.

On another front, the Obama administration has said it intends to introduce some 90 new workplace rules this year.

Two thousand and ten may also bring the approval of cap-and-trade legislation, which given the complex scientific and economic models involved, will create another long list of question marks.

Changes in tax law are almost a certainty, even if the specifics are still unclear. The estate tax, which—as part of the Bush tax cut plan—is zero in 2011, is expected to be raised in future years and that change may even be made retroactive.

Income taxes for the two highest tax brackets are expected to rise; the Obama administration at various times has said taxes will be increased on people earning 200,000 or \$250,000.

"When people talk about who's making above \$200,000, it tends to pull in a lot of small business people," says Mark Calabria of the Cato Institute, a former senior staffer on the Senate Banking Committee.

Budget-strapped states have already raised taxes or intend to do so.

Unlike the complex tax structure of global corporations, there are few or any loopholes.

"If you are talking about the entrepreneurial class, they run a small business, have a handful of employees and they just report that as regular income," adds Bethune.

Less income, more expenses—it's hardly a prescription for expansion, says experts.

Small- and medium-sized business owners are still recovering from the real estate collapse and the credit crunch; it is not uncommon for them to use real estate as collateral or credit lines to make payroll.

On top of that, like big business, they're still waiting for a return in demand

"It may mean you take less investment chances," says Challenger. In that context, jobs are looking might chancy."

• [Slideshow: Biggest Job-Losing Industries of Next Decade](#)

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