

Bloomberg

June 10, 2012 | bloomberg.com

Opinion

Let Startups Start Out Tax-Free

Small businesses represent 99.7 percent of all private-sector employers, provide great innovation and are the most potent force to revive America's economy, which cannot grow at a healthy pace without them.

Yet small businesses continue to face unnecessary obstacles to their success. Despite the adoption of new laws and regulations aimed at helping small firms, many still confront crushing regulatory burdens and struggle to get costly, time-consuming permits necessary to do business. They face overwhelming challenges trying to compete against more loosely regulated companies in other countries. As one of the largest insurers of small businesses, we see it every day, both anecdotally and in the data.

New small businesses, and the U.S. economy, would benefit significantly from a three-year incubation period during which they would face lower taxes, fewer regulatory requirements and fewer penalties for first-time and harmless paperwork violations.

An obvious way to promote small business would be to reduce or entirely eliminate their taxes during the first three years of operation. While there are no reliable statistics showing how much in federal and state taxes new businesses pay, it is clear that taxes can be a burden on these enterprises. The average, profitable small business pays an effective tax rate of about 20 percent, according to a study commissioned by the U.S. Small Business Administration. Although many startups aren't profitable in their initial years, those that are would be able to plow back earnings into their companies and, in turn, hire more workers.

TEMPORARY RELIEF

By granting temporary relief from the cost of regulations not related to public health and safety, these businesses could focus on survival during their greatest period of vulnerability.

From all over the country, I hear about counterproductive requirements. A freight transport company, for example, employs drivers who must have four different licenses to travel a mere four miles between New York City and Port Newark, New Jersey. More and more state and local governments require costly and time-consuming "occupational licenses" that do little to advance the particular profession. According to a recent study, only one in 20 U.S. workers needed the government's permission to pursue a chosen occupation in the 1950s. Today, it is about one in three.

The study, by the Institute for Justice, a law firm that promotes less government regulation, examined 102 occupations that require licenses, including interior designer, travel guide, funeral attendant and florist. The study found little correlation between the difficulty of entering the occupation and the public health or safety risk it posed. For example, 66 occupations have greater average licensing burdens than emergency medical technicians. The average cosmetologist spends 372 days in training, while the average emergency medical technician spends only 33.

Of course, it would be a bad idea to eliminate licenses for occupations that have a clear health or safety component. And any other regulatory waivers should not apply to those circumstances or to clear threats posed to the environment.

While many agencies have already reduced fines and penalties for first-time, harmless paperwork violations, they should go further and eliminate them entirely for three years. Policy makers should focus on educating small businesses and helping them satisfy their compliance goals, rather than penalizing them for inadvertent and technical violations.

ONE-STOP SHOPS

There is good reason to think this would make a difference. Just look at some of the states with the highest rankings for policy friendli-

ness toward entrepreneurs, including South Dakota, Texas, Wyoming and North Dakota. They have lower taxes and lower levels of regulation than most other states. Their unemployment rates are also lower than the national average.

Cities and states should also create one-stop shops that consolidate regulations and reduce the time it takes to open a small enterprise. In New York, Mayor Michael Bloomberg, in partnership with the city council, has created a one-stop office to help small restaurants obtain permits and satisfy other requirements. It has helped open 546 restaurants, saving them an average of 72 days by cutting through the city bureaucracy. The effort has assisted in the creation of more than 6,000 jobs in the food-services industry.

Easing burdens on small business would have broad, positive consequences for the economy. In recent months, even though the recovery has been sluggish, employment gains by those companies are far outpacing increases by large enterprises and account for the lion's share of new jobs. In the past year, small businesses created 84 percent of the 1.3 million new private nonfarm jobs.

For me, the health of small business is personal. After World War II, my father completed military service and started a small printing business. While it remained small, it had an outsized impact on our family. It enabled me to become the first generation of my family to go to college and provided the opportunity that launched my career, an experience that no doubt is familiar to many of my generation and succeeding ones.

The nation's future depends on small business. As a matter of sound economic policy, and to preserve and promote American opportunity, we should do more to nurture them.

(Jay S. Fishman is chairman and chief executive officer of Travelers Cos. The opinions expressed are his own.)

By Jay S. Fishman

