Written Testimony of Valarie J. Cofield
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Before the House Committee on Small Business
Subcommittee on Economic Growth, Tax, and Capital Access

Chairman Chabot, Ranking Member Velazquez and Members of the Subcommittee, thank you for the opportunity to provide testimony today about the growth and development of minority-owned businesses, particularly as it relates to three key areas: 1) the economic impact and importance of the development and growth of minority-owned businesses; 2) the impact of H.R. 1 – Public Law No: 115-97, the Tax Cuts and Jobs Act; and 3) the continued funding of the Minority Business Development Agency (MBDA).

My name is Valarie J. Cofield and I am the President and CEO of the Eastern Minority Supplier Development Council (EMSDC). EMSDC is headquartered in Philadelphia, PA with a satellite office in Pittsburgh, PA. EMSDC is one of 23 regional affiliates of the National Minority Supplier Development Council (NMSDC), operating in Pennsylvania, southern New Jersey and Delaware. As the president of the Eastern Minority Supplier Development Council, my mission is to ensure that all diverse businesses have access to and opportunity in the private-sector and public supply chains.

Recognizing the impact and importance of minority business enterprises, in March 1969, President Nixon signed Executive Order 11458 requiring government agencies and their contractors to contract with minority-owned companies and to report the results against pre-established goals to the Office of Minority Business Enterprise which became the Minority Business Development Agency (MBDA) in 1971. In 1972, as the result of several federal grants focused on private-sector engagement of minority businesses, the National Minority Supplier Development Council was formed. Formation of the NMSDC in 1972 represented a private-public partnership to provide increased procurement and business opportunities for minority businesses of all sizes. "By 1974 the newly formed NMSDC contracted with the U.S. Department of Commerce's Office of Minority Business Enterprise to encourage major corporations to "increase their purchase of goods and services from minority businesses. Almost half a century later, NMSDC has expanded to become a not-for-profit, member-funded advocacy organization that has been the leader in thought and action for minority supplier development throughout the U.S., in the private and public sectors."[1]

The National Minority Supplier Development Council is the global leader in advancing business opportunities for its certified Asian, Black, Hispanic and Native American business enterprises. Its network of 23 regional affiliate councils includes over 1,400 corporate members, including most of America's largest publicly-owned, privately-owned and foreign-owned companies, as well as universities, hospitals and other buying institutions. The regional councils certify and match more than 12,000 minority-owned businesses with member corporations, institutions and organizations that are interested in to purchasing their products, services and solutions from certified minority-owned from certified minority-owned businesses. Globally, the NMSDC Network includes five (5) Global Link partners (Australia, Canada, China, South Africa and the United Kingdom}.

[1] The Business Case for Minority Business Enterprises: Fueling Economic Growth, White Paper, National Minority Supplier Development Council (2017)

I. Economic Impact of Minority-Owned Businesses by the Numbers

"In 2010, the minority population (Hispanic-, African-, Asian- and Native-Americans) totaled 107 million. According to the US. Department of Commerce, the minority population had an estimated buying power of $2.5 trillion, larger than the buying power of all but 5 countries in the world including the UK, Russia, and France. Also, according to the U.S. Department of Commerce, between 2002-2007, minority owned firms outpaced the growth of non-minority firms in gross receipts (55%), employment (27%), and number of firms (46%)."

A report from the Milken Institute and the Minority Business Development Agency (MBDA) [indicated] that…the number of minority business owners in the U.S. (currently estimated at 3.3 million) is growing at a rate of 17% annually, MBE sales are growing 34% a year, twice as fast as the national average. The Department of Commerce also notes that between 2000 and 2045, the minority population will contribute as much as 70% of the total increase in purchasing power."

Minority-owned businesses are growing at a much faster rate than that of U.S. businesses overall. At the time of the U.S. Census Bureau 2007 Survey of Business Owners, minority-owned businesses accounted for 21.3 percent of the nation's businesses, employed 5.8 million persons, and generated $1.0 trillion in receipts. *Source Pennsylvania Small Business Development Center*

"NMSDC certified MBEs total economic impact exceeds $400B in output resulting in 2.2M jobs (direct or indirect) This translates into $1.1B in business activity daily. These same MBEs generate approximately $49B in tax revenue for local, state and federal governments."[2]

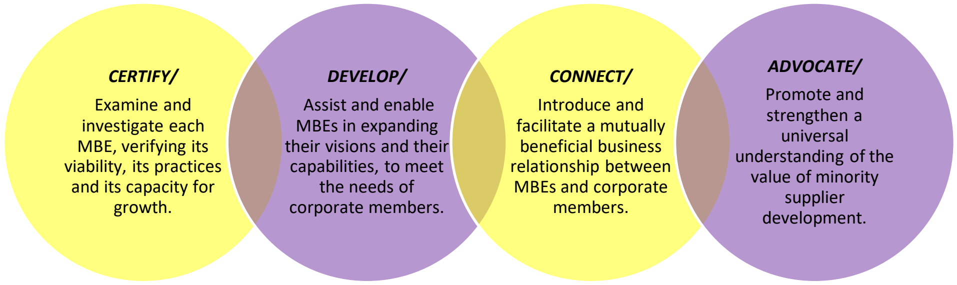
EMSDC: A Closer Look

**Source Eastern Minority Supplier Development Council (EMSDC), U.S. Department of Commerce and U.S. Census Bureau*

Our foundation as an NMSDC affiliate directly aligns us with the most powerful minority supplier organization in Corporate America. EMSDC boasts corporate membership of over 120 Fortune 100 and Fortune 500 companies either headquartered or doing business in Pennsylvania, southern New Jersey and Delaware, all with organizational commitment to supplier diversity. Through its NMSDC network affiliation, EMSDC has access to national and international resources to deliver programming that gives unparalleled coverage of both private and public-sector procurement opportunities, nationally and globally.

[2] *NMSDC 2014 Economic Impact Report*

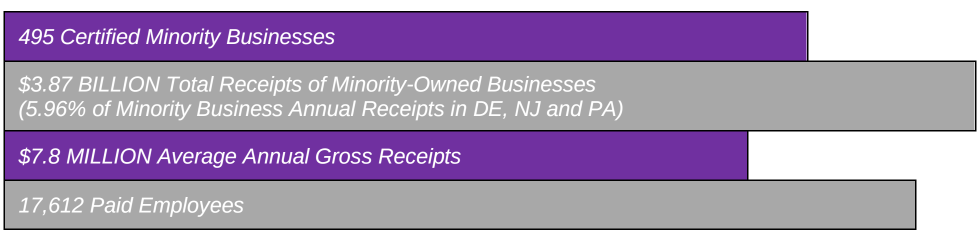
The Core of Our Mission



Corporate Partners

“Our corporate members have annual revenues estimated to exceed $1.1 trillion. A commonality between our members and corporations throughout America is the understanding of the value and importance of diversity and inclusion in business. The proof is in the numbers. On average, supplier diversity programs add $3.6 million to the bottom line for every $1 million in procurement operation costs. The high return on investment is undeniable. In 2014, MBE spending grew 20% from the previous year. The leading category driving growth came from Technology and Telecom, which grew 46% that year, from $20.5 million to $30 million. Another category of significant growth was Facilities, which more than tripled from $980 thousand to $3.1 million during the same period.”[3]

EMSDC Certified Businesses by the Numbers*



EMSDC's MBEs in 2017 had an average annual revenue of $7.8M and collective revenue of $3.9B. In 2017, EMSDC’s 495 certified businesses employed 17,612 individuals, or an average of 35.6 employees per business, far outpacing the rate of employment for the average small business of 20 employees per business.

[3] EMSDC 2016 Annual Report. Forbes, D&B Stanton, R. 12015, January 10). The Hackett Group takes fresh look at supplier diversity• MBN USA. Retrieved December 1, 2015, from www.mbnusa.biz/hackett-group-takes-fresh-look-supplier-diversity/ The 2014 Nielsen Supplier Diversity Annual Report

Demographic Overview Minority Businesses - EMSDC's Footprint in Delaware, Southern New Jersey and Pennsylvania*

Delaware

15,764 Minority Owned Businesses

$2.16 BILLION Total Receipts of Minority-Owned Businesses in 2007

$137,360 Average Annual Gross Receipts

1,425 Employer Firms

$1.8 BILLION Employer Firms Total Receipts

$1.26 BILLION Employer Firms Average Annual Gross Receipts

18,968 Paid Employees

New Jersey

182,489 Minority Owned Businesses

$44 BILLION Total Receipts of Minority-Owned Businesses in 2007

$241,298 Average Annual Gross Receipts

33,612 Employer Firms

$38.45 BILLION Employer Firms Total Receipts

$1.1 BILLION Employer Firms Average Annual Gross Receipts

191,483 Paid Employees

Pennsylvania

96,208 Minority Owned Businesses

$18.69 BILLION Total Receipts of Minority-Owned Businesses in 2007

$194,269 Average Annual Gross Receipts

14,686 Employer Firms

$16.27 BILLION Employer Firms Total Receipts

$1.1 BILLION Employer Firms Average Annual Gross Receipts

97,768 Paid Employees

EMSDC is known as the ultimate connector, that reputation shines when a successful corporation contracts with an MBE that meets its needs and meshes with its organizational culture. Through collaborations, EMSDC has built partnerships with economic development program operators in the region, driving the agenda towards synergistic operation and programming that yields maximum benefit to its clients. EMSDC, through its private and public partnerships, supports the long-term sustainable growth of minority-owned businesses and their participation in the global supply chain. As compared across Delaware, New Jersey and Pennsylvania of all minority-owned businesses, EMSDC's certified businesses yielded 35 times more in revenue than non-certified minority-owned businesses.

II. H.R. 1 - PUBLIC LAW NO: 115-97, THE TAX CUTS AND JOBS ACT

Will small diverse businesses benefit from H.R. 1 – Public Law No: 115-97?

The implications of H.R. 1 – Public Law No: 115-97, The Tax Cuts and Jobs Act, on small diverse businesses are uncertain. The initial read of the benefits offer optimism that with the reduction in the effective tax rate for all businesses, whether through the direct reduction of the corporate tax rate to a flat tax of 21% or the pass-through deduction of 20%, H.R. 1 affords the opportunity for businesses to realize additional capital to invest in human talent, resources, equipment and inventories. The structure of H.R. 1, creates concerns because most small businesses (diverse businesses) are not C-corps and therefore the effective tax rate of 21% will not apply to these businesses. Small businesses (diverse businesses) are typically pass-through businesses, sole proprietorships, limited liability companies, partnerships, and S corporations. They pay no taxes as an entity and instead, profits from the business are passed through the entity, with the owner(s) paying tax on them at the individual tax rates. Under H.R. 1, the top individual rate is 37%, higher than the new 21% flat rate for C corporations.

Eligibility for the 20% Pass-Through[4] Deduction

Under H.R. 1, persons earning income through pass-through entities (new IRC Sec. 199A), may be eligible to deduct up to 20% of their net business income on their individual tax returns, in addition to all other business deductions. If applicable, owners of pass-through businesses are effectively only taxed on 80% of business income, lowering the top individual tax rate for these business owners from 37% to 29.6%. This is a temporary reduction expiring January 1, 2026 and has limitations, including:

- This deduction is phased out if income exceeds the $315,000/$157,500 limits. It disappears entirely for married individuals filing jointly whose income exceeds $415,000 and for singles whose income exceeds $207,500.
- Professional services businesses, or any business where the principal asset is the reputation or skill of one or more of its owners, are not automatically eligible for this additional 20% pass-through deduction. These business owners are only eligible if taxable income, from all sources, after deductions is less than $315,000, married individuals filing jointly, or $157,500 if single. Otherwise the deduction is phased-out. Disappearing entirely for married individuals filing jointly whose income exceeds $415,000 and for singles whose income exceeds $207,500. These businesses are also not eligible for the W-2 employee and W-2 employee plus qualified business property deductions.

[4] H.R.1 - Public Law No: 115-97

Bonus Depreciation
The increase in bonus depreciation of new and used long-term assets from 50% to 100% in a single year through 2023, with incremental reductions down to 20% through 2027. Listed property (except computers) must be used over 50% of the time for businesses to qualify for bonus depreciation

Other Key Provisions
Limits on Deducting Business Interest - small businesses with gross receipts less than $25 million are not subject to business interest deduction limits.

Limits on Deducting Net Operating Losses – elimination of NOL carrybacks and deductions are only allowed up to 80% of taxable income, although they may be carried forward and deducted indefinitely into the future.

H.R. 1, also eliminates various business tax deductions and credits, including the:

- deduction for business entertainment expenses, except for meals
- starting in 2026, the deduction for meals provided to employees for the convenience of the employer
- deduction for payment of employee parking, mass transit, or commuting expenses
- domestic production activities deduction, and
- deduction for local lobbying expenses.

Impact on Small (Diverse) Businesses

While it is too soon to measure the impact of H.R.1 on small businesses, there are several immediate observations that can be made and must be reviewed:

- The disparate application of the 20% pass-through bonus, adversely impacts professional service businesses which represent approximately 40% of all small diverse businesses and therefore will provide little to no tax savings to these business owners. Savings that would result in investment in new talent, technology, business development tools/resources will not be realized for these businesses, negatively impacting growth and long-term viability.
- The various business tax deductions and credits that have been eliminated will have direct impact on small business, who use these deductions and credits to offset tax liability, particularly pass-through businesses.
- Further the provisions of H.R. 1 are too short-term to have sustainable impact on small businesses, as the potential for savings and investment will be mitigated by access to capital and rising healthcare costs.
- Pass-through businesses will bear the burden of H.R. 1 and receive the least benefits or relief from H.R.1. These businesses are disproportionately, minority-owned.

Unfortunately, the sustainable and measurable benefits to small businesses may only be indirect and the result of increased spending and demand from current and potential customers that may increase spending and seek their services, due to realized savings from H.R. 1.

III. FUNDING FOR THE U.S. DEPARTMENT OF COMMERCE, MINORITY BUSINESS DEVELOPMENT AGENCY (MBDA)

Established in 1969 by Executive Order 11458 and formed in 1971, the Minority Business Development Agency (MBDA) is a part of the Department of Commerce and is the premier federal agency dedicated to supporting the expansion of minority- and Native-owned business enterprises. Unlike the Small Business Administration and other federal agencies that focus on broader demographic and emerging businesses, the MBDA's directive is to focus on the unique challenges and needs of minority-owned businesses. It is the only federal agency "dedicated to the growth and global competitiveness of our Nation's minority business enterprises (MBEs), which, according to the U.S. Census Bureau's 2007 Survey of Business Owners, contributed $1 trillion in total economic output and employed nearly 6 million Americans."

The Minority Business Development Agency (MBDA) reported that at the end of the five-year period (2007-12) it studied, there were 8 million minority-owned businesses in the U.S., a 38% increase in that five-year period. It also noted:

- *Between 2007 and 2012, the number of MBEs grew three times faster than the population growth in minorities.*
- *Results of the U.S. Census Bureau's 2012 Survey of Business Owners revealed that MBEs grow significantly faster than non-minority-owned businesses.*
- *Employment at MBEs increased 33% and gross receipts rose by 57%, while non-minority-owned businesses shrank by 5%.*

MBDA also noted that minority-owned businesses continue to lag in annual receipts behind non-minority-owned businesses:

- *Averaging $196,000 in gross receipts in 2012, compared to $650,000 in gross receipts for non-minority-owned businesses in that same period.*
- *By 2012, the number of MBEs had increased in the preceding five years from 21% to 29%, important progress, but lagged significantly behind the growth in U.S. minority population.*

The Administration's FY2019 budget blueprint recommends the reduction of the agency through the elimination of the network of MBDA centers nationwide. "The network of approximately 40 MBDA Business Centers is the "flagship" program of the Minority Business Development Agency. The Centers serve as the face of the Agency's imperative as the direct technical assistance providers to minority businesses on the ground in communities across the Nation. Without the MBDA Business Center network, MBDA would simply be unable to provide hands-on assistance to facilitate access to capital or contracts by minority businesses."

Understanding the persistent economic challenges that minority-owned businesses face, along with the income and wealth gap between minority and non-minority communities, it is important that the MBDA remains fully-funded and that the network of MBDA centers nationwide have adequate resources to support minority-owned businesses doing the work to assist these businesses in overcoming the barriers to growth and economic parity that they disproportionately encounter.

"In the beginning, it was the support of the federal government that gave life and momentum to the cause of minority supplier development. Now more than ever, that support is needed for the next stage in this vital work. At this moment in American history, that work, NMSDC and the philosophies and intentions of a Republican President and Congress can be very much on the same page. To that end, NMSDC urgently requests that the new administration and Congress reconsider a recent budget proposal to eliminate the Minority Business Development Agency (MBDA) of the U.S. Department of Commerce."

Conclusion

"Success does not lessen the challenge: the MBE still faces a far steeper climb to achieve equality with his or her non-minority competitors. The barriers to equality in business are subtle and overt, institutional and incidental, and NMSDC and its network of affiliate councils, including EMSDC, is uniquely equipped to change this environment – not by asking but by delivering, as MBEs do again and again. They offer more than a return on investment.

Minority supplier development fuels the broadest possible economic growth. Corporations forge profitable relationships with intensely motivated and innovative suppliers. The success of those suppliers then impacts their own communities: they invest, employ and contribute to the tax base and our region. On a more profound level, they give us all a vested interest in the American economy." [5]

The sustainability of small businesses, particularly small diverse businesses is bolstered by private-public partnerships, programs and initiatives. The NMSDC and its network of affiliate councils, including the EMSDC, is well-equipped to support the continued development and growth of minority-owned businesses, however continued support is needed, in the form of the MBDA, from the Federal government to ensure that small diverse businesses are well-positioned for continuous growth and long-term economic impact.

[5] The Business Case for Minority Business Enterprises: Fueling Economic Growth, White Paper, National Minority Supplier Development Council (2017)