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Regulations, taxes aren't killing small business, owners say

By Kevin G. Hall | McClatchy Newspapers

WASHINGTON — Politicians and business groups often blame excessive regulation and fear of higher taxes for tepid hiring in the economy. However, little evidence of that emerged when McClatchy canvassed a random sample of small business owners across the nation.

"Government regulations are not 'choking' our business, the hospitality business," Bernard Wolfson, the president of Hospitality Operations in Miami, told The Miami Herald. "In order to do business in today's environment, government regulations are necessary and we must deal with them. The health and safety of our guests depend on regulations. It is the government regulations that help keep things in order."

The U.S. Chamber of Commerce is among the most vocal critics of the Obama administration, blaming excessive regulation and the administration's overhaul of health care laws for creating an environment of uncertainty that's hampering job creation.

When it's asked what specific regulations harm small businesses — which account for about 65 percent of U.S. jobs — the Chamber of Commerce points to health care, banking and national labor. Yet all these issues weigh much more heavily on big corporations than on small business.

"When you look at regulations in many respects, what a lot of people don't take into account is their secondary impacts," said Giovanni Coratolo, the vice president of small business policy for the U.S. Chamber of Commerce. "They pay the price, regardless of whether they are primarily the recipient of the regulation or they are secondarily getting the impact of it. They pay the price in higher costs, whether it is fuel or health care or whether it's being able to find access to capital."

McClatchy reached out to owners of small businesses, many of them mom-and-pop operations, to find out whether they indeed were being choked by regulation, whether uncertainty over taxes affected their hiring plans and whether the health care overhaul was helping or hurting their business.

Their response was surprising.

None of the business owners complained about regulation in their particular industries, and most seemed to welcome it. Some pointed to the lack of regulation in mortgage lending as a principal cause of the financial crisis that brought about the Great Recession of 2007-09 and its grim aftermath.

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Biloxi Sun Herald/MCT

Rip Daniels, a businessman in Gulfport, Mississippi, says government regulation is not hurting his radio and real estate business, rising insurance costs are. It's a topic overlooked by politicians who claim taxes and regulation are choking job creation. | [View larger image](#)

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Wolfson's firm is readying to open a Hampton Inn this year in Miami on land purchased from a condo developer during the housing downturn. His business could be in line for higher taxes if President Barack Obama allows the current, lower rates on the richest Americans to expire in 2012 and return to previous levels.

That didn't seem to bother Wolfson, who through his partnership declares profit and loss as a pass-through on his personal income taxes, as many small businesses do.

"Higher taxes are not good for business, but some of the loopholes and deductions should be looked at," he said.

The answer from Rick Douglas — the owner of Minit Maids, a cleaning service with 17 employees in Charlotte, N.C. — was more blunt.

"I think the rich have to be taxed, sorry," Douglas said. He added that he isn't facing a sea of new regulations but that he does struggle with an old issue, workers' compensation claims.

Douglas told The Charlotte Observer that he's hired more workers this year, citing pent-up demand from customers.

"My theory is that the people that do have jobs are working harder and they have less time to clean. People were holding back for such a long time, and then they started spending a little more," he said.

Then there's Rip Daniels. He owns four businesses in Gulfport, Miss.: real estate ventures, a radio station and a boutique hotel/bistro. He said his problem wasn't regulation.

"Absolutely, positively not. What is choking my business is insurance. What's choking all business is insurance. You cannot go into business, any business — small business or large business — unless you can afford insurance," he told Biloxi's Sun Herald.

Since 2008, Daniels has opened one business and expanded another, hiring as many as 15 people thanks to lower labor costs and an abundance of overqualified job candidates. He credits the federal stimulus effort with helping to keep some smaller firms afloat.

"It allowed those folks to spend and have money and pay for the essentials," said Daniels, whose business pays corporate taxes. He grudgingly supports closing some business tax deductions to reduce the federal budget deficit.

"Who wants to pay more? I certainly don't. I want to pay my fair share, and I do," Daniels said, adding that he wouldn't resist loophole closures to cut deficits.

For Zajic Appliance in south Sacramento, California's capital city, business also has picked up. The company hired two workers this year, bringing the total to 18, said Christopher Zajic, who manages the family business.

One odd reason for his improving business: sales of bank-owned properties in a city that's among those hardest hit by the housing crash. When these houses sell, he said, their new owners generally replace appliances.

California used some of its federal stimulus money to pay for a "Cash for Appliances" program last year, a rebate program for purchases of energy-efficient washing machines and refrigerators.

"It spiked sales," Zajic told The Sacramento Bee, adding that he thinks the effort simply compressed sales into a shorter time period rather than created new demand.

For many small businesses, their chief problem is an old one: navigating the bureaucracy of the Small Business Administration to secure government-backed loans.

"My biggest problem is the current status of the banking system and how it's being over-regulated," Dennis Sweeney, a co-owner of Summit Sportswear Inc., told The Kansas City Star. "I want to grow this business, and I'm using the same credit line that I've been using for five years."

Kansas City-based Summit, 20 years old, supplies college-licensed clothing to university bookstores in four Midwestern states. Sweeney hired his fourth employee in August. He's adding licenses to sell apparel to colleges in the Southeast and Atlantic region, but his company doesn't have inventory or other collateral that bankers usually want to secure loans.

And the small local banks Summit deals with frown on the red tape required for SBA loans, after a loan he got in 2008 took three months of nightmarish documentation.

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"It was only \$35,000," Sweeney said. "Our bank basically said it would never do that again."

Other small firms say their problem is simply a lack of customers.

"I think the business climate is so shaky that I would not want to undergo any expansion or outlay capital," said Andy Weingarten, who owns Almar Auto Repair in Charlotte. He's thinking about hiring one more mechanic.

Added Barry Grant, the regional president of Meritage Homes Corp., in California, "It starts with jobs. ... There's an awful lot of people sitting on the fence; they're waiting for a sign."

One reason hiring remains dampened is the prolonged slump in the housing sector, a driver of the pre-crisis economy. Meritage builds homes in California and six other states. It'll build fewer than 1,000 homes in the Golden State this year, well below the 2,500 annually it built during boom times.

Another cause of sagging demand for new houses, Grant told The Sacramento Bee, is the planned October change to loan limits in order for a homeowner to qualify for a federal government-insured home loan. It was boosted to as high as \$769,000 in parts of the country during the financial crisis, but Republicans in Congress have pushed for a return to lower limits and less government involvement in the housing market.

In Sacramento County, the change would mean a new loan limit of \$474,000 to qualify, well below the current \$580,000. Around the nation, the loan-limit change has created uncertainty.

"Any uncertainty in the market makes people hold off," said Grant. "It builds a certain level of uncertainty."

Sometimes a small business's struggle has nothing to do with government at all.

Lynn Swager, a co-owner of Brass on Ivory in Edgewater, Md., sells, rents and repairs musical instruments. She faces a completely different sort of challenge.

"The thing that chokes us, believe or not, is the Internet. There are so many things that are accessible on the Internet that they can purchase for less than I can purchase from my distributor," Swager told McClatchy. "Everybody thinks the Internet is this great thing that is happening to the world, but it is really, I think, killing a lot of small business. People that we talk to that are no longer in business say the same thing exactly."

(Mark Davis of The Kansas City Star, Doug Hanks and Hannah Sampson of The Miami Herald, Donna Harris of the Biloxi Sun Herald; Dale Kasler of The Sacramento Bee and Eleanor Kennedy of The Charlotte Observer contributed to this article.)

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