

The SPEAKER pro tempore (Mr. TOOHEY). Under a previous order of the House, the gentlewoman from North Carolina (Mrs. CLAYTON) is recognized for 5 minutes.

(Mrs. CLAYTON. addressed the House. Her remarks will appear hereafter in the Extensions of Remarks.)

MESSAGE FROM THE PRESIDENT

A message in writing from the President of the United States was communicated to the House by Ms. Wanda Evans, one of his secretaries.

THE EDUCATION BUDGET

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Rhode Island (Mr. LANGEVIN) is recognized for 5 minutes.

Mr. LANGEVIN. Mr. Speaker, I rise today to protest the Republican budget on which we voted because it slashes critical investments in education that are essential to Rhode Island's schools. This budget falls \$21 billion short of even the President's proposal for education investment. President Bush and too many of my colleagues on the other side of the aisle have made this tax cut for the rich a top priority and paid for it with Draconian budget cuts in critical social services.

I am disheartened to see the President abandoning his campaign promise and abandoning our children. Under this partisan budget that we were forced to vote on today, Rhode Island will lose critical funding for class size reduction, school construction and violence prevention programs. In 1999 and 2000, Rhode Island received more than \$11 million under the 100,000 New Teachers program. With these funds, Rhode Island was able to hire 145 new teachers. President Bush wants to terminate this valuable program and resign Rhode Island's children to overcrowded classrooms. More teachers and smaller class sizes are critical to helping all students, and they have a particularly dramatic impact on those from low-income families. In fact, smaller class sizes are key to substantially closing the achievement gap between high-performing and low-performing students. To leave no child behind, we must reduce the size of classes by helping schools recruit and hire more teachers.

Rhode Island is also in serious need of money for school construction. Many schools throughout the State are deteriorating dramatically. Too many children are learning in trailers and in classrooms that do not meet even the minimum health and safety standards. In sum, Rhode Island schools are in need of \$1.6 billion in repairs. Yet the Republican budget abandons Rhode Island's children by providing zero funding for school construction. Instead of creating modern and safe schools that are conducive to learning, the Bush budget eliminates the school renovation program and retroactively redi-

rects the \$1.2 billion already appropriated for this year to other programs. As many as 1,000 schools in disrepair will not be renovated because of this budget.

Mr. Speaker, reforms without resources will not produce results. Public demand to invest in education has never been stronger. Parents and taxpayers want to reduce class size, repair schools, ensure students have the highest-quality teachers and target Federal assistance to schools that are most in need.

This opportunity must not be squandered on ill conceived plans or sacrificed because of inadequate funding and a lack of political courage. Let us make children and public education our top priority and provide resources needed to make a difference for every child in America.

To truly leave no child behind, the White House and Congress must match rhetoric with resources needed to turn words into deeds and hope into reality.

PUBLIC SERVICE RECOGNITION WEEK

The SPEAKER pro tempore. Under a previous order of the House, the gentleman from Illinois (Mr. DAVIS) is recognized for 5 minutes.

Mr. DAVIS of Illinois. Mr. Speaker, today we are in the midst of Public Service Recognition Week, and I rise to salute the public servants whose hard work and determination have markedly improved the way government does business.

Each May, the Public Employees Roundtable launches activities in cities across our Nation which highlight excellence in public service at the Federal, State, and local government levels. The organization hosts agency exhibits and demonstrations that educate the public about the array of programs and services that public employees provide to the American people.

Activities in my own hometown were kicked off yesterday by the Chicago Federal Executive Board. The board held its 44th Annual Excellence in Federal Career Awards program at the grand ballroom at Navy Pier in Chicago. Thirty-one agencies submitted a total of 487 nominations for the Board's consideration. Among the 11 first place Outstanding Employee or Team winners were: Lynn Hoffstadter, a manager with the Department of Veterans Affairs, who was recognized as an outstanding supervisor for leading Hines Veterans Administration Hospital to the highest level of accreditation that hospitals can receive. Michael Johnson, an employee with the U.S. Customs Service, was recognized as an outstanding community service employee for his work with the homeless and the troubled in his church. And the Chicago Lead Enforcement Initiative at the Environmental Protection Agency was awarded the Outstanding Law Enforcement Team Award for forming an aggressive alliance between Federal,

State, and local agencies to protect families from the debilitating effects of lead contamination.

Mr. Speaker, while I have only enough time to recognize a few of the winners, I believe that each award recipient and each person nominated deserves our appreciation. This past Monday the Public Employees Roundtable held a ceremony here on Capitol Hill and presented its "Breakfast of Champions" award to representatives of exceptional programs at each level of government. The 2001 award winner at the Federal level was the Ricky Ray Program at the Department of Health and Human Services in Rockville, Maryland.

Other programs receiving special recognition this year were the Ohio Appalachian Center for Higher Education in Portsmouth, Ohio; Hennepin County Adult Correctional Facility Productive Day Program in Plymouth, Minnesota; and the Long Beach, California, Department of Parks, Recreation and Marine's Public Art in Private Spaces program.

Beginning this past Monday, and continuing through Sunday, May 13, over two dozen Federal agencies and employee organizations will have exhibits set up in large tents on the National Mall at Third and Independence Avenues. The public is invited to come out to learn more about the functions of these agencies and the services that each one provides. There will also be a job fair and a science fair. Some of our military bands and other groups will provide entertainment during this family-oriented event.

So, Mr. Speaker, Public Service Recognition Week offers all Americans, especially young people, the opportunity to learn and get excited about a career in public service. It also provides the opportunity to thank those who serve us daily for their efforts. I believe that public service should be valued and respected by all Americans, and the activities occurring this week across the Nation prove why. I thank all our public service employees, Mr. Speaker.

SMALL BUSINESS WEEK

The SPEAKER pro tempore. Under the Speaker's announced policy of January 3, 2001, the gentleman from Illinois (Mr. MANZULLO) is recognized for 60 minutes as the designee of the majority leader.

Mr. MANZULLO. Mr. Speaker, as chairman of the Committee on Small Business of the House of Representatives, I am pleased to join with the President in helping to celebrate Small Business Week. We have several members of our Committee on Small Business here on the floor today, and I would recognize and yield to the gentlewoman from West Virginia (Mrs. CAPITO).

Mrs. CAPITO. Mr. Speaker, I thank the chairman of our Committee on Small Business for yielding to me.

I come to the floor today as a member of the Committee on Small Business to recognize the significant role of small businesses in the spirit of National Small Business Week. In my home State of West Virginia, where small business is big business, 90 percent of the businesses employ less than 20 people. Those smaller-sized firms employ nearly 60 percent of West Virginia's private sector employees. They are at the forefront of job creation, adding a net total of 4,700 employees between the years of 1995 and 1996 in West Virginia alone.

These numbers prove that small business is the backbone of our economy. But small businesses often serve other roles: as a second family to the employees or as pillars to their community. Often small businesses invest time and resources in other causes and organizations, or they become involved in local schools, churches, and sports teams.

In Charleston, West Virginia, my home, Bill Signorelli, the owner of Security America, sponsors a Little League team, along with volunteering much of his free time to the Charleston area chamber of commerce. Bill has built his business from the ground up, and now his business works to encourage the same work ethic that he used as a young person in many children through their baseball team.

In Lewis County, West Virginia, a man by the name of Frank Brewster owns and runs Sun Lumber Company, a company that employs about 10 employees. Aside from running his own business, Frank spends many hours of his valuable time as the head of the employer support of the Guard and Reserve for West Virginia. Frank's tireless commitment helps strengthen our country by easing the way for other small businesses to serve in the National Guard and in the Reserves.

That kind of spirit and local involvement is not unique to these particular small businesses; rather, it is very common among small businesses across the country. That spirit is why I stand here today, and that is why I wish to join in the celebration of National Small Business Week.

So today, and for the rest of the week, we recognize, celebrate, and commend the vital and significant contributions of small businesses, not only to our families, to their employees, but also to our local communities and our country.

Mr. MANZULLO. I have a question for the gentlewoman. She was kind enough to participate in a full small business hearing that we held this past week concerning the purchase of berets for our soldiers.

Mrs. CAPITO. Yes.

Mr. MANZULLO. About \$29 million in purchases, of which only about \$4 million was domestic and the rest was procured overseas. We have succeeded to a large part in stopping the overseas procurement, but the gentlewoman had mentioned to me something to the ef-

fect that just this past week she lost several hundred jobs involved in the clothing industry; is that correct?

Mrs. CAPITO. Yes. Over the last several months we have lost an enormous employer in Roane County, in Spencer, West Virginia, which actually had a factory for clothing and textiles sewing. So we would have liked to have had that business in Spencer, West Virginia. It was a small business, and it has kind of gutted the community now that they have left. So if the military is going to rebid that, we sure want to be in on that.

□ 1545

Mr. MANZULLO. There is about \$40 billion a year worth of all types of procurement coming from the Department of Defense; a good percentage of that is clothing. I know that your heart was hurting over the fact that 3- or 400 people lost their jobs.

Mrs. CAPITO. Yes.

Mr. MANZULLO. And being it is a small town in a rural county, it is very difficult to find work elsewhere.

Mrs. CAPITO. That is right. I appreciate your bringing that to my colleague's attention. When you lose that many jobs, it not only guts the community in terms of the economics, but also the local involvement, the church, the Little League teams, school fundraisers, all of these things start to fall apart when you lose a large employer like that.

Mr. MANZULLO. Mr. Speaker, I appreciate the gentlewoman's participation in our special order this afternoon.

Mr. Speaker, I yield to the gentleman from Indiana (Mr. PENCE).

Mr. PENCE. Mr. Speaker, I thank the gentleman for yielding to me.

Mr. Speaker, each year for the past 38 years the President has issued a proclamation calling for the celebration of National Small Business Week. National Small Business Week, which is sponsored by the SBA, is being held this week. We honor the estimated 25.5 million small businesses in America that employ more than half the country's private workforce and create three out of four new jobs, and generate a majority of American innovations.

As chairman of the Subcommittee on Regulatory Reform and Oversight, I would like to lay out the principles that I believe should inform this body's agenda for our Nation's small businesses.

First, we need tax relief for small business owners. The House has taken a step in the right direction in passing a fiscally responsible budget that leaves room for tax relief. Contrary to what our opponents charge, cutting rates in the highest income tax brackets does not yield benefits just for the wealthy. Most small businesses pay taxes as individuals. Sixty-three percent of tax filers who will benefit from the top rate cut are small business owners who will likely reinvest their money in their businesses.

The Department of Treasury reports that a top tax rate reduction could increase small business receipts by 9 percent. The tax reform and relief allowed by today's budget will help encourage risk-taking and investment in small businesses.

Secondly, we need health care reform that protects employees and small businesses. In many cases, associations and industry organizations can provide health care to their member organizations at lower cost than those charged by traditional providers. We should actively promote legislation that will free small businesses to choose health benefit packages that will attract and retain the best people.

Right now, government employees, our own staffs, have far more choice in health plans than the small businesses in our districts. Colleagues, this ought not to be. Let us let small business employers offer the same health care choices to their workers that our staffers on Capitol Hill are given. In reforming health care, we must not extend legal liability to employers for health care decisions made by HMOs or other similar providers. Holding small businesses responsible for mistakes made by health care providers will drive many of them out of business and millions of employees out of insurance.

Thirdly, I believe we must create high-tech infrastructure that aids entrepreneurs. If we do not create an economic environment that allows for high-tech innovation, our small businesses will stagnate, unable to keep up with competitors in the high-tech marketplace.

Increasingly, new small business owners are starting their own businesses in cyberspace. Unless the high-tech infrastructure is in place to make this possible, there will be a dangerous divide between the "haves" and "have-nots" which could significantly undermine business growth and development in small and medium-size towns, like many which I represent in east central Indiana. Without access to the information superhighway, both education and local economies will suffer.

Fourth, we need regulatory reform which is informed by sound scientific information and careful and unbiased research. Much of the debate in the small business area is driven by Federal regulatory agencies and the new policies they create for health, safety and the environment. While the government has made great strides in recent years to improve compliance assistance and review for impact on small businesses, much more remains to be done. Let us work together to remove the regulatory impediments to innovation and problem solving.

Congress must ensure that the engine of our economy, our Nation's small family-owned businesses, are not undermined by flawed and burdensome regulations.

Finally, we must explore new opportunities for trade to open up new markets and opportunities for small businesses. Small manufacturers and entrepreneurs are increasingly successful because they are able to win new customers in overseas markets. Congress should help the President win access to new markets through fast track trading authority. Also, we must work to expand free trade zones around the world. The President's recently announced initiative to advance a Free Trade Area of the Americas is a visionary first step. By fighting for fair free trade in our own hemisphere, we will help end unfair trade practices that undermine America's natural competitive advantage. These new markets will help grow our economy and ensure that our allies in the Western Hemisphere continue to grow politically and economically.

Our Nation's small businesses are the strongest in the world. With tax relief for small business owners, health care reform that provides choice for employees, high-tech infrastructure that aids entrepreneurs, and regulatory reform to eliminate burdensome regulations, combined with expanded international trade, I believe that our small businesses will continue to be the backbone of our economy in the 21st century.

Mr. Speaker, I thank the gentleman from Illinois (Mr. MANZULLO) for the opportunity to speak during this special order and for his leadership of the Committee on Small Business, and permitting me to join with you in celebrating the small businesses of Indiana and the small businesses of America.

Mr. MANZULLO. Mr. Speaker, I thank the gentleman from Indiana for participating in our special order today.

Mr. Speaker, I yield to the gentleman from New York (Mr. GRUCCI).

Mr. GRUCCI. Mr. Speaker, I thank the gentleman from Indiana (Mr. MANZULLO), the chairman of the Committee on Small Business, for yielding to me to honor America's small businesses, and I thank him for his guiding and stable hand in directing the committee which is doing so much good work for our small businesses throughout this great country in helping to create the economic stability or the cornerstone of our economic revival.

As you may know, Mr. Speaker, over 22 million viable small businesses are thriving across the United States. Small businesses with fewer than 500 employees make up the vast majority, 99.7 percent of all employer firms. Let me repeat that number. It is 99.7 percent of our small businesses make up our employer firms.

Small businesses generate approximately 50 percent of all U.S. jobs and sales. One of small businesses' biggest contributions to the economy is that they hire a greater population of individuals who might otherwise be unemployed than larger businesses. Very small firms with fewer than 10 employ-

ees hire part-time workers at a rate twice that of large firms of 1,000 or more employees. These small firms employ a higher proportion of workers under 25 and age 65 and older.

Mr. Speaker, I would like to focus my remarks this afternoon on the benefit of streamlining the paperwork across the board to improve the efficiency of America's small businesses as well as their experiences with the Federal Government.

During my career both in the private sector, and as a small family businessman, and in the public sector where I served as supervisor of the largest town in Suffolk County on Long Island, I have always been a proponent of streamlining the costly bureaucracy that hinders the success of small businesses and stifles the entrepreneurial spirit.

In my small family business, I experienced firsthand how encyclopedia-sized applications discourage owners from competing for government projects. I had to hire additional attorneys, accountants and consultants just to fill out the basic paperwork. These requirements place unnecessary burdens on the backbone of our Nation's economy.

As a local town supervisor, I streamlined and enhanced the planning review process on so many small businesses so that they could obtain permits at a faster pace. I created a streamlined, one-stop shopping system where small business owners and potential entrepreneurs could find all of the information and permits they needed to quickly expand their business or, in fact, start up a new one. For example, my policies afforded a high-technology company the opportunity to begin construction on a 40,000 square foot facility that created new jobs in less than 30 days. Without my streamlining plan, this process could have taken months, if not years, and those jobs would have been lost.

By streamlining the process, small businesses open faster, expand at a greater rate, create additional jobs and improve the quality of life for all Americans. In addition, I implemented budgets that cut the property tax burden on homeowners and businesses by \$72 million. The result was the creation and retention of more than 20,000 good-paying jobs in less than 5 years.

Once again, I ask my colleagues to join in honoring small business owners across the Nation.

Mr. Speaker, I thank the gentleman for his leadership of the committee.

Mr. MANZULLO. Mr. Speaker, this is National Small Business Week, and it is a time to reflect on exactly who these small business people are, why they are involved in small businesses operating for themselves as opposed to working for somebody else. There is a lady back home by the name of Rebecca Hillburst in Rockford, Illinois, and she has been honored this week in the field of government procurement as the Regional Subcontractor of the Year.

Mr. Speaker, few people know that small businesses provide over \$63 billion worth of goods and services to the Federal Government. Rebecca is the first in our region to receive this award. Rebecca's father started the Commercial Printing Company in Rockford in 1948. She assumed the helm of the company in 1989. The business performs customized and commercial printing jobs. Rebecca Hillburst and her four employees, George, Lars and Eleanor Hillburst, as well as Darcie Powelson, are symbolic of the small entrepreneur enterprise that makes America great. I applaud their hard work and dedication.

When I was 4 years old in 1948, my father bought a grocery store on the southeast side of Rockford, Illinois. At that time, right after World War II, times were very difficult. The immigrants coming from eastern Europe would often stop right in front of my father's grocery store, which was also a bus stop, and they would walk in with a piece of paper which would say, "See Frank at Frank's Port Market when in Rockford." Likewise, hundreds of families came out of Arkansas, came to Rockford because of a huge crop failure in Arkansas at that time.

Dad, over the period of years that he had that grocery store, grubstaked literally hundreds of families who otherwise could possibly have starved. He would extend them credit based upon the fact that he knew he would get repaid and he was doing the right thing.

He was also a master carpenter. I recall on occasions when dad would take the Blue Star potato chip boxes which were about an inch thick, he would go to garages and places where these people lived and use those potato chip boxes to insulate their homes so the cold air would not come right through the board walls. Those were times when in the summer, people lived in tents, and many times people lived in basements, not being able to build the house on top of the basement that they themselves had constructed.

□ 1600

Dad chose to go into small business because of his desire to work for himself. He could have earned a lot more money working for other people, but he envisions today what we know as the entrepreneurial spirit. That spirit gave rise to a sense of social consciousness that has been passed down to me. Oftentimes on Saturday night, Dad and other people in the community would get a large painter's tarpaulin and hang it from a billboard and get the 16-millimeter projector from Morris Kennedy School and show Hopalong Cassidy movies and all types of movies that those people in this country that are in their 50's will remember at that time.

The small businesses worked very closely with the schools and the churches and brought together what we call this sense of community, people working together to make a community a better place to live. When I ran

for Congress, I would talk about my father and his commitment to the people. Time after time people would come up to me and say, Mr. MANZULLO, we knew your father. Were it not for him, our family would have had a very difficult time making our way even to live in this country. He found us places to live. He found us jobs. We would go into the grocery store with a cut hand, and he would be there to break open a package of Band-Aids just to help us.

But Dad is not unique. He envisioned along with my mother the spirit of entrepreneurship and, that is, you work as hard as you possibly can to get ahead in life. But he also recognized something else. Dad was not much about government. Oh, he voted all the time and believed that government was necessary; but he also believed that government was getting involved in too many areas where it should have stayed out of, the regulations that hit Dad's grocery and then eventually the restaurant business that he went into in 1953. My brother Frankie carries on that tradition today with Manzullo's Famous Italian Foods. I told my brother I think that name is a little bit facetious, but he believes that his menu is famous; and he believes that the fact that people eat that Italian food, that they will be famous also. But Frankie also with his 13 tables and a small Italian restaurant carries on the tradition of entrepreneurship. He believes very strongly that people are supposed to work hard, it is an ethic that is ingrained into our system of America today, and that small businesspeople should be rewarded, not asking for anything except to keep the fruits of their labor.

What do we have today? We have a government that has gotten so big, so large, exercised jurisdiction where it has no business being, that small businesses are crushed under the burden of regulations.

Mr. Speaker, I yield to the gentleman from Pennsylvania.

Mr. TOOMEY. Mr. Speaker, I would like to thank the chairman for his leadership. And advocating for small businesses, the gentleman understands very well the critical role that small business plays in our economy, that small business plays in our entire society. I am sure he is well aware of the fact that small businesses have in recent years created 80 percent of the new jobs in America. It is very hard to overstate the importance of small business, and so it is fitting that we recognize small businesses this week. I just want to recognize and commend him on his leadership, the hearings that he has held and the attention that he has focused on finding ways that the government can relieve the burden that government imposes on those people creating these jobs and really contributing so much to our economy.

I wanted to speak in particular about why today is a big day for small business owners across America and not just small business owners but every

single person who is employed by a small business, the people who provide supplies and services to small businesses, the communities that derive tax revenue from small businesses and suffice it to say our entire economy and that is the budget resolution that we passed today. One of the highlights of the budget resolution is the tax relief that is contemplated, it is allowed for by this budget resolution. It is modest tax relief. If you look at it in any historical standards, it is quite modest. If you look at it compared to the size of our economy it is quite modest; but it is important because it is significant, it is across the board, it will provide tax relief for all tax-paying Americans, and it is the most significant tax relief in a generation.

Why is it so important? There are a number of reasons, but let me focus on one in particular. The tax relief that we voted to allow today with our budget resolution, if enacted, which I believe it will be and I am sure the President will sign it into law, it is going to lead to economic growth and prosperity. It is going to increase the economic output of our country, and that means productivity of our workers is going to rise, that means workers' wages will go up, that means standards of living will improve and that means a better quality of life for all Americans. That is why this is a big day, not just for small businesses really but for everybody, but especially for small business. Part of what is going to help small businesses in particular is lowering of the marginal rates of taxes.

As the gentleman knows, many small businesses, probably most small businesses in America, are taxed using the personal income tax rates, especially those that choose a subsection S designation, which is to say most, they are subject to personal tax rates. When we lower the tax rate that that small business is going to pay, we increase the incentive to work, to save, to invest and to grow that business.

Now, the fact is the majority of people in America are going to get up and go to work every day whether or not we lower taxes. That is a fact. But growth occurs on the margin; and many small business owners have flexibility, they have a choice, they have a decision to make. Should they put in extra time, extra work, more effort, more risk, more of their capital at risk, expanding their business, growing their business, should they do that? Or should they spend that marginal savings, time, energy doing other things, spending it with their families, spending it at leisure, spending it doing something else? If you think about it, when we increase the rewards that that small business owner is going to be able to take home by lowering the amount of money we confiscate from him in the form of taxes, when we increase the rewards for working and saving and investing, people choose to do more working, saving and investing.

Every single time in our Nation's history that we have had significant

across-the-board tax relief, we have seen a corresponding increase in economic activity and economic productivity, in growth and prosperity. That is what is going to happen when we finish through this process and we enact the tax relief that is contemplated by this budget. I am convinced if we continue on this path and we follow through with this budget resolution and we provide this tax relief, and frankly I hope that this will be a floor, not a ceiling, in terms of tax relief, there are many important elements that we could include, that we could add to the tax relief that was proposed by the President, I hope we will because we should, if we do that, we are going to increase the rewards and we are going to increase the incentives and we will see a corresponding increase in the output of economic activity, and that is higher wages, higher standards of living, greater economic growth.

That is what this is all about. It is going to give people the opportunity to develop and accumulate capital which gets invested in this economy and really leads to all good things and continued growth in the tremendous engine of growth for our economy which small business has been.

I am delighted today to recognize the contribution small businesses make to our economy, to our prosperity, and to recognize also that the budget resolution we passed today is going to help everybody who is an owner, an employee, a provider of services or products for small businesses. That is a big step forward for all of them.

Mr. MANZULLO. I would like to ask the gentleman from Pennsylvania a question if he has the opportunity to stick around for a few minutes.

Mr. TOOMEY. Certainly.

Mr. MANZULLO. So often we hear people saying, well, look at all the things that government can do for businesses. I would like to ask the gentleman what in his mind he envisions when he hears that question asked.

Mr. TOOMEY. One of the best things that I think government could do for business is get out of the way. We share several things in common, one of which is our historical involvement in the restaurant industry. My brothers and I have been in the restaurant industry, I no longer am, but for many years we were in this business, having started a restaurant business from scratch. The regulations are extremely onerous; but even more onerous from my point of view was the tax burden and the Tax Code, both obviously visited upon business owners by the Federal Government.

To give my colleague an example, or to put it in perspective, I think of the restaurant business in many ways; it is a simple business. You go out, you buy food, you cook it, and you sell it. It is not terribly complicated. But every year at the end of the year when it comes tax time, I have to hire an accountant and pay a great deal in fees

for the accountant to go out and calculate what our tax obligation is. What he sends back to me, or what he used to when I was an owner of these restaurants, would be a stack of documents at least an inch high with instructions to fill out a check for a particular amount, sign the form, send it in and hope for the best.

That is what small business owners do every day. There is no reason for that. There is no justification for a Tax Code that is too complicated to understand. There is no justification for a Tax Code that rewards and punishes people with their own money based on whether they behave in a fashion that is approved of by politicians. This is not the way we ought to be doing things. Part of what we need to do is move on and provide meaningful simplification of our Tax Code and more fairness in our Tax Code.

When I talk to the people who are still in small businesses back in Lehigh and Northampton Counties and Montgomery County in Pennsylvania, the folks across the Upper Perkiomen Valley and the Lehigh Valley who are creating all those jobs, what they tell me is, Give us some room. Just step back, lower our tax burden, lower the regulatory burden and we will be fine. These folks are not looking for a gift; they are not looking to be given anything except the opportunity to go out and run their own businesses as they see fit. I think they deserve that.

Mr. MANZULLO. I concur with the gentleman. The best thing that government can do for all businesses is to stay out of the way. Obviously, there are necessary things that the government has to do with regard to safety. We are not questioning those things. But take the area, when my mother died about a year ago and although our brother's business is not affected because of the very modest amounts, I would like to ask the gentleman what in his opinion this death tax does when the owner of the business dies and he wants to pass it on to his children. What has been the gentleman's experience on that?

Mr. TOOMEY. I know of a number of cases and circumstances in which the effect is devastating. An important point to remember is that the death tax which the gentleman is referring to, which is the tax whereby at the occasion of a person's death the government comes in and confiscates up to 55 percent of everything that person has left over, let us step back and remember that whatever a person has left over is left over after multiple layers of taxation were already paid.

Mr. MANZULLO. During the lifetime.

Mr. TOOMEY. During the course of a working person's lifetime, the person pays tax on their income. If there is a little money left over from that and you save it or invest it, you pay taxes on dividend or interest. If you have a capital gain because an asset appreciates in value, you pay a tax on that.

If you still manage to have something left over after all those taxes are paid at the end of your life when you die, the government comes in and takes more than half of that. I think to most Americans that is absolutely unreasonable and unfair to have that many layers of tax on the same income, the same savings. But nevertheless that is what we do.

What are the ramifications of that? They are extremely negative. One example that is all too common is that small businesses, farms, they might grow to the point where there are assets that are substantial, they may be several million dollars, but very frequently they are not cash, they are not in the form of securities. They are not liquid assets that are available to pay bills. They are investment in plants, in equipment, in factories, in land, in very tangible real property but property that is not liquid.

When suddenly the government comes in and says we are going to assess the value of this entire operation, and we want more than half of it now, that forces the heirs to that person's family business or farm to make some very, very difficult and sometimes devastating decisions. Often they have to sell the entire thing to generate the revenue to pay the tax bill. Sometimes they have to sell portions of it. Sometimes, Mr. Speaker, a family is forced to take on a huge amount of debt to pay the tax bill, continue to try to operate the business now with this huge debt that has saddled them and sometimes they have to lay off workers, sometimes they have to cut back on their workforce in order to afford the service on the debt.

The point is the Tax Code should not be driving that kind of decision. It should be the economics of the operation that determine whether you sell the operation, take on debt, not a Tax Code that says it is time for the government to take half of their value. That is the kind of devastating impact it can have. It can force farmers to sell their farm, it can force small businesses out of business altogether, and it can force small businesses to have to take on a mountain of debt which their business may not be well equipped to handle.

□ 1615

It can have all of these unintended consequences, all in the name of trying to confiscate a person's savings at the occasion of their death.

So it is important to remember that this is not just a tax that penalizes those people who chose to be frugal and to save and invest and accumulate an asset over their life, but also they are employees; the contribution that business makes to the community; the revenue that is derived from people who provide goods and services to that business; the ramifications spread out from there, and they do much harm.

Mr. MANZULLO. One of the things that I have seen taking place is farm-

ers that really want to pass the farm on to their kids but they know the death tax would be so excessive that they sell out because the capital gains tax is cheaper than the death tax and the capital gains tax can be timed over a period of time.

Some folks in our country are concerned, and in many cases rightly so, over the loss of green space. A person wants to sell his or her farm, that is obviously their right of private property. But to sell it, essentially prematurely, that is not the way it should be.

Mr. TOOMEY. If the gentleman will yield, in my district in the Lehigh Valley and the Upper Perkiomen Valley of Pennsylvania, we have beautiful rolling countryside, farmland and a rural area, within a short distance of the center cities that make up the heart of my district.

Many people are quite justifiably concerned about the sprawl that is going on; the development that is extending ever further outward; the congestion that arises as a result of that; the diminution of the quality of the countryside as these developments have gone on.

What we have is we have a Tax Code that encourages that. In some ways, the Tax Code forces that kind of development because just as the gentleman points out, it is an economically rational decision in many cases, not a decision a farmer wants to make but an economically rational decision, given the Tax Code, to sell that farm, even though he would much prefer to pass it on to his children.

To sell that farm, who is the likely buyer of a farm? It is going to be a developer.

Mr. MANZULLO. I was in a position years ago, as an attorney in Ogle County, Illinois, when a family had to sell half the 640 in order to keep the 320, just to pay the death taxes. That is not nice. That was before there was the unlimited marital deduction.

To see the widow and the kids devastated by the sale of that farm, and money just to pay taxes and they had worked on that farm their entire lives. What we see is the farmers who have to have a tremendous amount of capital assets, and restaurant owners, grocery store people, people with construction companies literally can run into the millions of dollars worth of equipment in many cases to make a very modest living. They are absolutely totally devastated.

Take the difference between a professional person such as an attorney. He does not need but literally a few thousand dollars' worth of equipment to get started. At the end of that person's career, the cases are picked up by other people within his office and not taxed. The firm is not taxed.

Yet, for a farmer or the grocery store owner or the restaurant owner, that cannot be done because their wealth, their income, is based upon the use of assets that cost a tremendous amount of money.

So we see that 80 percent of small employers have to spend costly resources to protect their families from the death tax. There is a tremendous amount of money in attorneys' fees, accountants' fees, life insurance premiums all going towards that eventual date when the person dies that there be enough resources out there to pass that farm on to the kids. What happens when that money is used for expenses like that, it does not get plowed back into the business.

Mr. TOOMEY. If the gentleman will yield once again, that is a very important point. There is an enormous amount of money, by many responsible estimates, as much or more than what is collected from the death tax every year, is spent to avoid it.

Now think of how counterproductive that is; to force people to spend that kind of money all to circumvent this onerous tax. The gentleman is exactly right. This money is going to pay attorneys and accountants to set up trusts and all kinds of funds and to pay massive amounts of insurance premiums, which is such a counterproductive use of this capital.

This is money that could be invested in our economy to grow the economy, to grow those small businesses, to create more of those jobs that we know these businesses are so inclined to do if given the opportunity. But instead, we force them to allocate resources in a way that makes no economic sense; no sense for their business; no sense for our economy. It is all driven by this terrible flaw in the Tax Code, which is why it is so important that we repeal the death tax in its entirety rather than just create some increase in the exemption.

If we just increase the exemption, we have not gotten rid of the problem. We have diminished it somewhat, but the only way to resolve this problem is to repeal an unfair tax.

Mr. MANZULLO. If we just increase the exemption, then the next Congress can come back and lower it way back again. Back in 1992, before I was elected to Congress, there was a bill that was introduced that would lower the then-exemption from \$400,000 to under \$200,000, which would make it even more obstructive.

We have introduced a bill called the Small Employer Tax Relief Act of 2001, H.R. 1037, that is a bipartisan bill. I signed onto it, helped draw it, along with the gentlewoman from New York (Ms. VELÁZQUEZ), who is the ranking minority member on the Committee on Small Business. I believe that this is a breakthrough, a bill that really will help small businesses.

First of all, small businesspeople that are not incorporated should be allowed to write off 100 percent of the cost of health and accident insurance for the self-employed. My brother is facing \$600 and \$700 a month for health and accident insurance, and there are small businesspeople that actually go out of business, decide to work for

somebody else, simply because they can get the health insurance benefits. So it is time that this Congress really stepped up to the plate and said, look, for too long we have gone with playing games. Now I think it is only 60 percent is deductible.

Mr. TOOMEY. Again, I think this is a very important point, because again we have a Tax Code that causes such an inappropriate distortion in our economy. We have a Tax Code that says if a corporation goes out and buys insurance, health insurance for an employee, the corporation can deduct that as a legitimate expense. It is deducted from their tax liability. That is fine.

When an individual or a small business, unincorporated small business, goes out and tries to purchase that identical policy, that person cannot deduct it.

Now, what is the possible justification for that?

Mr. MANZULLO. There is no rationale for it.

Mr. TOOMEY. It is not rational. It is not in the interest of anybody to do this, but yet we perpetuate this, even in light of the fact that we have millions of Americans who are uninsured.

Clearly, many of those would be better able to afford the insurance if they could deduct it; just as corporations already do.

I think what the chairman is suggesting is merely that individuals get the same kind of treatment that corporations already get.

Mr. MANZULLO. Yes.

Mr. TOOMEY. Why would we not extend that tax treatment to individuals?

Mr. MANZULLO. It is just something that the small businesses have been trying and trying for the longest period of time to get, and it has had a very difficult time getting through. Hopefully, it will get through this year.

On this bipartisan bill, as to which I believe the gentleman is a cosponsor, it would get rid of it by repealing the FUTA, a 2 percent surtax. It would increase expensing up to \$50,000. In fact, we are in the process now of looking at whether or not the small business owner or the casual investor should be allowed to set his or her own depreciation schedule.

I just put a rubber roof on a building, a 130-year-old building, not worth that much but the roof cost \$25,000. The law says one has to take 39 years to depreciate it. It has a 10-year warranty on parts and a 5-year warranty on labor. It absolutely does not make sense to have arbitrary rules like that.

If we allowed the small business owner to set his or her own depreciation schedule, then, for example, I could choose the number of years I want to do it, say 4 or 5 years, but if I expense it then I could no longer add it to the basis for the property when I sell it. Well, that is all right.

To have to go through that tremendous expense and really get very little tax break to help with it, simply does not make sense.

So there are a lot of things that we can do. This small business bill also allows small businesses with annual gross receipts of \$5 million or less to automatically use a cash method of accounting as opposed to the accrual system.

The gentleman would recall a hearing that was held in the Committee on Small Business where people were involved in the installation of drywall. It was a very small company and the Federal Government said even though they did not have a storehouse where they took the drywall, and even though they called the wholesaler and the wholesaler delivers the drywall directly to the place where it is to be installed, that we are going to consider this to be inventory and, therefore, we are going to tax them on the accrual method, which means that they are taxed based upon what they bill as opposed to what they receive.

This is a company of about 12 people, got hit with a \$200,000 tax bill. Now, it does not make sense because essentially the Federal Government collects no more money on the accrual system than it does on the cash system.

Mr. TOOMEY. It is really a question of timing, is it not, in terms of the Federal revenue on the taxes?

Mr. MANZULLO. It is.

Mr. TOOMEY. It is a question of timing, which is not terribly important to the Federal Government but it is incredibly important to the small business operator who in the example the gentleman just presented is forced to pay a huge tax bill on income that he has not collected yet. Is that correct?

Mr. MANZULLO. And may never collect.

Mr. TOOMEY. Right.

Mr. MANZULLO. In fact, the IRS had entered into some type of an agreement with a dentist in downstate Illinois that said he would have to be on the accrual method. We got wind of this and worked with a couple of organizations. I actually sat down with Commissioner Rossotti of the IRS. His background is in systems as opposed to being a tax attorney. He was really surprised that one of his 106,000 employees had forced this dentist to do that, and he put an end to it.

So we see all of these tremendous numbers of abuses and we are really working on, I believe, some monumental, in fact bipartisan, legislation to help out the small businesspeople.

I appreciate the gentleman from Pennsylvania joining us today for special orders.

SIX-MONTH PERIODIC REPORT ON
NATIONAL EMERGENCY WITH
RESPECT TO IRAN—MESSAGE
FROM THE PRESIDENT OF THE
UNITED STATES (H. DOC. NO. 107-
68)

The SPEAKER pro tempore (Ms. HART) laid before the House the following message from the President of the United States; which was read and,