

# **The Computing Technology Industry Association**

## **Testimony Before the House Committee on Small Business**

### **"The Role of Small Businesses in Stimulating the Economy"**

**By**

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**Thursday, April 24, 2008**

#### **Introduction.**

Good morning, Chairwoman Velázquez, Ranking Member Chabot, and distinguished members of the Committee. My name is Marc Steiger. I am appearing today as a member of Computing Technology Industry Association (CompTIA), which represents over 10,000 member companies. I also am appearing as the owner of a small business that is working to do its part to fuel the American economy.

I want to thank Chairwoman Velázquez and Members of the Committee for holding this important hearing to highlight the contribution of small businesses to the American economy. I also want to thank this Committee for its vigilant work in maintaining watch for issues that are important to small businesses, like my company, DLP Technologies. I believe that your efforts to maintain public attention - and importantly, the attention of Congress – on the needs of small businesses are vital to our economic well-being.

As this Committee certainly appreciates, small businesses are the backbone of the American economy. According to the Small Business Administration, over 99% of the 26.8 million American businesses are small businesses with fewer than 500 employees.<sup>1</sup> Further, small businesses:

- Employ about half of all private sector employees.
- Pay more than 45 percent of total U.S. private payroll.
- Have generated 60 to 80 percent of net new jobs annually over the last decade.
- Supplied 22.8 percent of the total value of federal prime contracts in FY 2006.
- Hire 40 percent of high tech workers (such as scientists, engineers, and computer workers).

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<sup>1</sup> *SBA Office of Advocacy estimates based on data from the U.S. Dept. of Commerce, Bureau of the Census, and U.S. Dept. of Labor, Employment and Training Administration.*

Further, small innovative firms produce 13 times more patents per employee than large patenting firms, and their patents are twice as likely as large firm patents to be among the one percent most cited.<sup>2</sup>

Small businesses are a vital source of the entrepreneurship, creativity, and innovation that keeps our economy globally competitive. And as the economy stumbles, it is essential that small business be positioned to find nimble and innovative ways to keep our businesses moving.

### **CompTIA Overview.**

I am a member of CompTIA, and I am a VAR. The typical small business does not have an IT department but relies upon the services of an important segment of the computer industry referred to as "Value Added Resellers" or VARs. VARs are small system integrators that design, install, and maintain computer systems and networks for other small businesses. An estimated 32,000 VARs, most of which are small businesses themselves, sell approximately \$43 billion dollars worth of computer hardware, software, and services annually. This means that over one third of the computer hardware sold in the U.S. today is sold by VARs.

Ms. Chairwoman, CompTIA represents the business interests of these VARs. For 25 years, CompTIA has provided research, networking, and partnering opportunities to its 10,000 mostly American member companies. And while CompTIA represents nearly every major computer hardware manufacturer and software publisher, nearly 75% its membership is comprised of American VARs - the small business component of the tech industry. So, we particularly appreciate the opportunity to testify before this Subcommittee.

As further background, in addition to representing the interests of VARs, CompTIA also works to provide global policy leadership for the IT industry through our headquarters in Chicago and our public policy offices in Washington, Brussels, Hong Kong, and Sao Paulo. Also, in the computer industry, CompTIA is well known for the non-policy-related services that it provides to advance industry growth: Standards, professional certifications, industry education, and business solutions.

### **DLP Technologies Overview.**

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<sup>2</sup> U.S. Dept. of Commerce, Bureau of the Census; Advocacy-funded research by Kathryn Kobe, 2007 ([www.sba.gov/advo/research/rs299tot.pdf](http://www.sba.gov/advo/research/rs299tot.pdf)); Federal Procurement Data System; Advocacy-funded research by CHI Research, 2003 ([www.sba.gov/advo/research/rs225tot.pdf](http://www.sba.gov/advo/research/rs225tot.pdf)); U.S. Dept. of Labor, Bureau of Labor Statistics, Current Population Survey; U.S. Dept. of Commerce, International Trade Administration.

First, I would like for you to know that the SBA loan program has been of great benefit to my company, and I thank you for your support of this valuable small business program. Our company just purchased a commercial condominium for office space with SBA guaranteed funds. Also, some of our emergency working capital is also backed by SBA funds. The SBA program helped us lock in a credit approval for a long enough period to build our building, made it easier for us to get approval through the SBA taking part of the credit risk, and allowed us to lock in part of our financing for 20 years, putting our business growth plan on a more stable footing.

DLP Technologies, Inc. has worked with small and medium sized businesses in the Cincinnati area for over 25 years. We work with small businesses becoming their IT support department, helping their computer users, managing their computer infrastructure, and helping the business become more efficient and effective by helping to plan their IT projects. We also work with mid-market companies on a project basis in the areas of Microsoft infrastructure, storage, virtualization, and data centers. We have about 100 small business clients in the Cincinnati area, in many diverse industries, from law firms to printers, from small manufacturers to nursing homes, from chains of opticians to chains of chili parlors, from construction firms to retailers.

DLP supports the American economy as the employer of 11 employees with a payroll of \$675,000. We pay approximately \$55,000 annually in payroll taxes, and we support our employees by providing a full program of benefits. We also support our community by paying all required fees and taxes. However, our major contribution to the economy is through the impact we have on our clients. We support their users, keep their IT equipment functioning, and help plan their IT projects to support their businesses goals.

Companies like mine play an integral role to the American economy. We implement the IT that makes both the personal and business lives of our clients better, more prosperous, enriching and productive. Over the past decade, IT has enabled unthinkable productivity gains to the American economy. During this period, small businesses in America have embraced IT wholeheartedly. The market-leveling abilities of IT mean that it has become near-universal for small businesses. Even the average ice cream vendor uses IT to transact business. Why? Small businesses now recognize that to remain competitive, they must effectively employ the latest IT tools.

Though VARs do not generally manufacture IT itself, we do innovate IT solutions for our clients. Among other things, we support their users, keep their IT equipment functioning and up-to-date, and help plan their IT projects that best foster their businesses goals. Thus, VARs perform the majority of work in wiring America with IT, helping small businesses better compete and enabling from the those companies a near-endless variety of consumer goods and services at ever-more competitive prices.

I would like to give 2 examples of the kind of impact our services can make on our clients' productivity.

Last year, we did a technology project for The Counseling Source, a provider of mental health services for the elderly located in Cincinnati, OHIO. Our client had been in business for 18 years, but due to the administrative constraints of having clinical staff return to the office for record keeping and billing purposes, they had not been able to extend their reach beyond 25 miles. Because of the project we completed for this client, they are now able to range into any Ohio county and are now able to serve 300 clients, up from 200 before the project. Also, they have increased their clinical staff by 50% while decreasing their administrative staff from 10 employees to 4. This is a prime example of how we assist our client to reduce waste and increase productivity. Their CEO tells me they will continue to grow, because they now have discovered that there is great need for their counseling services throughout Ohio.

Another example is a project we did for Thoma and Sutton Eye Care Professionals, a 22 store optical chain located in Cincinnati, Ohio. By upgrading and supporting their technology platform, we were able to improve their productivity, and allow an 8% increase in sales with no increase in personnel. We also supported their increase in size by 2 stores by allowing their management to concentrate on more important matters while we took responsibility for technology issues. Their CEO asks me to emphasize to you today that they relied on the Section 179 expensing program to make their technology investment affordable; he told me that his company would not have made the investment without the Section 179 expensing provision.

We work with 100 small business clients just like the ones I just described supporting them every day. We also work with another 15-30 larger mid-market clients with up to 1,000 employees, on productivity boosting IT projects. This is how DLP, along with all our small business VAR competitors, make a significant impact on the productivity of the American economy.

### **Issues of Concern to Small Technology Businesses.**

Sometimes our small businesses need the assistance of government; sometimes we need government to stay out of the way. I know this Committee is well-aware of how government can help or harm. So today, I would like to mention a few issues of concern to me and other small technology businesses:

**1. Health Care.** The cost of health care insurance is becoming more and more out of reach for small businesses. I pay \$68,000 in annual premiums for 11 employees; this is 10% of my total employee costs. So far, I consider myself lucky, as our employees have not faced any major health issues. But what if we have a huge claim tomorrow? My costs could double or triple overnight. Why should I have a competitive advantage over another business whose only fault is that someone on their staff or family happens to get very sick? Businesses should compete on the basis of our procedures, our employee's training, our company vision, not because we were lucky with healthcare claims. Why do we have a system that incents us to employ the young versus the older? My first

thought upon hearing of an illness in an employee or their family should be that person's welfare – not how this will affect our health insurance rates. This system is not healthy, and the status quo is no longer working and needs to be changed.

So why do I offer health coverage? If I did not, my employees would leave – or I would have to increase salaries so that my employees could purchase private coverage – assuming they could find an insurance provider. The cost of health coverage for my employees is just too high, and I suspect the vast majority of the other 26 million small businesses have the same problem. We need help. For years, we have heard talk of providing some health care relief or assistance for small businesses.

Accordingly, CompTIA calls for establishment of a Small Business Health Care Coverage Task Force. We believe that solutions to the many involved issues can only be derived with the open and studied consultation of all interested parties. Further, we believe that an ongoing task force composed of small businesses, as well as all other interested concerns, could work to define the issues and achieve consensus. This would be a great step in addressing this immediate problem.

**2. Health Information Technology.** CompTIA also support the adoption of health information technology (“HIT”) as a means to provide more efficient and less costly health care. We believe that we must take a serious look at what can and should be done to control costs and provide cost savings via adoption of health information technology. Clearly small business health plans will bring some administrative savings through pooling, but we also need to find ways to reduce to the underlying costs.

However, as we want to emphasize to this committee that a “national” HIT system will not be effective unless we can assure that small medical practitioners participate. Accordingly, we support legislation that will provide needed economic and/ or tax incentive that will encourage and assist small health care providers to purchase and maintain HIT systems for their practices.

**3. Small Business Expensing - Section 179.** As a small business, we are especially appreciative of the work of this Committee in bringing national attention to taxation issues affecting small businesses. And, on behalf of all CompTIA members and DLP Technologies, I want to personally thank and congratulate this Committee for its work in championing the need and benefits of section 179 small business expensing. Of course, we are very appreciative of the increase to \$200,000 enacted under the recent economic stimulus legislation. As I said earlier, one of my clients specifically identified the section 179 program as allowing him to afford a \$100,000 project last year that allowed him to increase productivity 8%. And, while we are most appreciative of this one-year bump, we ask for your support in making this \$200,000 limitation a permanent part of the tax code.

**4. 3% Withholding on Government Contracts.** We are concerned with the impending implementation of a 3% federal income tax withholding on government payments to contractors. DLP does make product sales to Universities and some school districts. My margin on this business is about 6 to 10%. So, a 3% withholding would represent 30-50% of my gross profits, which is a huge disincentive for me to continue with this business. I believe that small businesses will be particularly hard hit by this 3% federal income tax withholding. I want to thank this Committee for its work in this area, and I congratulate your persistence in passing legislation that would delay the effective date of this provision until 2012. This was bad tax policy when it passed, and it is bad tax policy now. We all know this will be devastating for small businesses that provide services to federal, state, and local governments. So, while we are pleased with the additional year of breathing room, this provision should be repealed, not just deferred.

**5. IT Security.** In addition to building and maintaining a properly functioning IT infrastructure for our small business clients, we also must be vigilant and encourage our clients to be watchful concerning issues of data and cyber security. This is a never-ending battle, and we must do all we can to protect our clients. While we keep current on alerts from our software suppliers and industry advisories, we find there is no coordinated program - either public or private - that can be accessed by either me or my clients to educate and alert on current or evolving cyber security issues and threats. In many situations, security violations could be avoided if there were some coordinated effort to collect, organize, and publish such threats so that IT users – both individuals and businesses – could be educated and forewarned.

IT security is important; it is essential for my clients. It is time for us to take a serious look at what can and needs to be done - and how this Committee can assist. Accordingly, we urge this Committee to implement legislation that would create a small business cyber security task force. Such a blue-ribbon panel could bring together experts from the SBA, the Department of Homeland Security, IT industry hardware and software vendors, and small businesses to figure out how industry and the government can work together more effectively to promote cyber security among small businesses.

**6. Patent Reform.** Patent reform benefits all technology companies, including VARs and technology workers who are dependent upon the commercial availability of a steady stream of technology innovation to promote sales of new products and services. A streamlined patent system that improves patent quality and reduces patent litigation expense will expand the technology product pipeline so critical to the business success of VARs.

Here is a specific example where we need to reduce litigation: Under current law, even if a small business produces only a piece of a microprocessor in a PC, another company that alleges infringement may demand damages based on the value of the entire computer. This threat of artificially high damages encourages aggressive litigation tactics and

premature settlements, especially for small business owners who do not have the resources to weather a lengthy patent dispute.

The same concerns that have prompted a call for patent reform from a broad spectrum of businesses –including financial services firms, high tech, and media – are only magnified when it comes to small business owners. Small businesses rely on patents to protect their latest innovations, which are often the foundation of their company. By strengthening and clarifying the process for obtaining and enforcing patents, and ensuring fair and even-handed treatment in the courts, small business owners and inventors will again be able to focus on developing new products and remaining competitive.

**7. Business Activity Taxes.** As states seek to maintain or expand both their tax bases and collections, CompTIA has noted increasing attempts to tax interstate transactions. One of the basic principles in the Supreme Court treatment of this issue of the *Quill* decision<sup>3</sup> is fairness. That is, it is principally unfair and burdensome for a state to require a business to collect sales and use taxes – when that business has no physical presence in the taxing state. Clearly, for the typical small business, this would impose a substantial burden. In addition to collecting and paying over sales taxes to multiple jurisdictions, the business would also be burdened with a multiplicity of compliance requirements.

However, while the *Quill* decision requires a *physical nexus* in situations involving sales and use taxes, this decision did not specifically address other forms of taxation. Therefore, while *physical nexus* continues to control sales and use tax collections, some states are now seeking to ignore this requirement for other forms of taxation – asserting that an “*economic nexus*” is sufficient. Under this theory, some states have attempted to tax any transaction that has an *economic nexus* to that state. This is bad tax policy which will result in unmanageable tax and compliance problems for all businesses.

Imposition of business activity taxes under the *economic nexus* theory imposes a particularly burdensome regime on the IT industry. For example, a VAR located in State A is engaged by a customer in State B to solve a software issue. The VAR has no place of business in State B and has never visited State B. But, without ever entering State B, the VAR connects to the customer’s computer via the Internet; the computer is repaired and the customer is billed for this service. Under the *economic nexus* theory, State B could assert that income earned by the VAR is subject to income and franchise taxes in State B. Also, because the VAR is a resident and is physically present in State A, State A would likewise seek to tax these earnings. It is easy to see how adoption of the *economic nexus* will usher in a burdensome and complex new multiplicity of tax regimes for all businesses. This would be most devastating for small businesses which have neither (i) the expertise to learn the taxing requirement of all states, nor (ii) the money to pay a professional to comply with multiple taxing authorities.

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<sup>3</sup> Quill Corp. v. North Dakota, 504 U.S. 298 (1992).

**8. Needless Regulation of the Internet.** More than any other single factor, the Internet has revolutionized American small business over the brief past decade. Small businesses rely on the Internet for marketing, advertising, supply chain, research, administration, communications and many other critical functions. The Internet has empowered countless small businesses to compete with large corporations and it has literally created countless new small businesses.

One of the most important reasons that the Internet has been so successful and so important to small businesses is that you in government have not needlessly regulated it. The relatively unregulated nature of the Internet has made it a magnet for creativity, investment and innovation. We believe that regulating the Internet should only be considered if every other technique –including full use of existing laws, user education, technology tools and industry best practices- have been attempted and failed. We urge the Committee to continue their policy of keeping the Internet free of needless regulations.

**Conclusion.**

Small businesses are the back bone of the American economy. And while we continue to provide unique goods and services to our clients, we also provide jobs to the majority of working Americans.

I certainly do appreciate your attention, as well as the honor of appearing on this panel today. We thank you for your vigilance in helping small businesses to remain competitive. I would be pleased to answer any questions you might have.