



INSTITUTE FOR JUSTICE

Maryland House Economic Matters Committee
Testimony in Support of HB 1314 – Right to Start Act

March 4, 2024

The Institute for Justice (IJ) is a national nonprofit that advocates for entrepreneurs across the country. HB 1314 will make entrepreneurship more accessible to lower-income Maryland residents by waiving the \$300 business filing fee. This will allow entrepreneurs to spend their limited resources on getting their businesses off the ground, without having to first pay the state before ever earning a dime.

IJ has been fighting for entrepreneurs for over 30 years. We believe in everyone’s right to earn an honest living doing what they love—and that government-imposed barriers should never be the reason why someone’s small business dreams fail to become a reality. But a national survey by entrepreneurship advocate Right to Start reported that 53% of people who considered starting a business chose not to, at least in part, because government fees were too high.¹ Our research and interviews with entrepreneurs across the country confirm these findings. Entrepreneurs frequently report feeling nickel-and-dimed at every step during the business startup process. Fees for business licenses, building permits, department inspections, tax registrations, and more quickly add up and often become an insurmountable barrier to lower-income individuals seeking to start a small business.² Waiving Maryland’s business filing fee for a business’ first year of operation will help lower those costs.

The State of Maryland is right to place a high priority on small business growth. Often, governments across the country cater to large corporations, offering tax breaks and other incentives to bring large employers to town. But microbusinesses—those with fewer than 10 employees—generate considerable economic activity in this country. The state must do what it can to support these smallest of enterprises, understanding that entrepreneurship creates economic opportunities for those who may be less likely to obtain high-paying jobs. For example, in 2021, 44% of microbusinesses were started by individuals without a college education and 63% were started with less than \$5,000 in capital.³

Studies show that small business ownership is an effective tool to lift families out of poverty and help build intergenerational wealth. Families that own businesses have

¹ Right to Start. (2022). *Entrepreneurial dreams: Key findings from Right to Start’s bipartisan voter poll on entrepreneurship*. <https://www.righttostart.org/poll>.

² Meleta, A. & Montgomery, A. (Feb. 2022). *Barriers to business: How cities can pave a cheaper, faster, and simpler path to entrepreneurship*. Arlington, VA: Institute for Justice. <https://ij.org/report/barriers-to-business/>

³ Venture Forward by Go Daddy.com (2021). *2021 Microbusiness national survey results*. <https://www.godaddy.com/ventureforward/2021-national-survey-results>



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median net worths more than four times greater than those that do not.⁴ And in a multi-year study, 81% of surveyed households that were below the federal poverty line at the beginning of the study rose above it by the end.⁵ Furthermore, entrepreneurship may help close the racial wealth gap. White adults have, on average, 13 times the wealth of Black adults. But when comparing the median wealth of white and Black business owners, the median wealth gap decreases to 3 times.⁶ By increasing access to entrepreneurship for everyone—and particularly for those for whom small business ownership has traditionally remained out of reach—Maryland can not only grow its economy but support healthy neighborhoods and diverse communities as well.

The evidence also suggests that reducing business license fees may translate into additional revenue for the state in the long term. In 2012, for example, Chicago reduced the permitting burdens placed on new businesses, saving business in the city more than \$2 million in fees alone.⁷ A review of Chicago’s budgets from 2011 through 2022 found that even after reducing the costs to start a business, both business license and tax revenue were higher post-reforms.⁸

HB 1314 takes an important step in the right direction towards lowering the financial barriers keeping many Marylanders from realizing their dreams of owning a small business. We urge your support.

Sincerely,

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⁴ Headd, B. (August 2021). *Small business facts: The importance of business ownership to wealth*. Washington, DC: U.S. Small Business Administration Office of Advocacy. <https://advocacy.sba.gov/wp-content/uploads/2021/08/Small-Business-Facts-Business-Owner-Wealth.pdf>

⁵ Edgcomb, E. & Thetford, T. (2013). *Microenterprise development as job creation*. Washington, DC: The Aspen Institute. <https://www.aspeninstitute.org/wp-content/uploads/2013/03/MicroenterpriseDevelopmentAsJobCreation.pdf>

⁶ Association for Enterprise Opportunity. (n.d.). *The tapestry of black business ownership in America: Untapped opportunities for success*. Washington, DC: https://aeoworks.org/wp-content/uploads/2019/03/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB-1.pdf

⁷ Harvard University Ash Center for Democratic Governance and Innovation. (Jan 2015). *Chicago Licensing and Permitting Reform*. https://hwpi.harvard.edu/files/datasmart/files/chicago_licensing_and_permitting_reform.pdf?m=1629298130

⁸ See City of Chicago Annual Appropriation Ordinances for Years 2011-2022. <https://www.chicityclerk.com/legislation-records/journals-and-reports/city-budgets>