

NSBA 2015 SMALL BUSINESS TAXATION SURVEY

NSBA
National Small Business Association

FOREWORD

With tax day just around the corner, small-business owners across the country are united in the stress and frustration associated with the countless hours and mountains of paperwork required just to file their taxes. Regularly ranked among the top issues facing small businesses, federal taxes are an ever-growing frustration with countless sun-setting tax provisions, retroactive extensions and legalese permeating even the simplest of tax rules and proposals. Now in its fifth year, NSBA's annual Small Business Taxation Survey provides small-business opinions on the byzantine U.S. tax code and policies surrounding it.

Celebrating more than 75 years as the nation's first small-business advocacy organization, NSBA's mission is to address the needs and represent the concerns of the small-business community. A staunchly nonpartisan organization where our members determine our policy priorities, NSBA's surveys aim to provide those members, policymakers, thought leaders and the media with critical data on the small-business community. Alongside our semiannual Economic Reports, this taxation survey and a host of other issue-based surveys are conducted throughout the year.

While the financial tax liability for small firms is a huge issue, the sheer complexity of the tax code is actually a more significant problem for America's small businesses. In ranking the most significant challenge to their business posed by federal taxes, the majority, 59 percent, picked administrative burdens, up from 53 percent just one year ago. One-in-three small-business owners report spending in excess of 80 hours—two full work weeks—per year on federal taxes and nearly spend \$5,000 or more annually the administration (i.e.: accountant fees) of federal taxes alone. The overwhelming majority, 85 percent, of small firms must pay an external tax practitioner or accountant to handle their taxes.

Federal taxes have a moderate to significant impact on the day-to-day operation of their business, and hold significant influence over decisions about the firm and its employees, say the majority of small-business owners. Among those considerations: small firms report that the number one deduction they use is Section 179 expensing, which continues to be mired in Congress' inability to provide stability to the so-called "tax extenders." More than two-thirds of small firms utilize some kind of tax benefit covered under the tax extenders umbrella.

Payroll taxes were ranked as the number one most burdensome tax both financially and administratively among small firms. The complexity of payroll taxes is a likely driver of the fact that the majority of firms with more than five employees use an external payroll company.

Sales taxes also are a major source of frustration and confusion. While nearly half of the small businesses report they don't collect sales taxes, 24 percent report spending three hours or more per month on the administration of sales taxes. The majority of small firms say navigating state sales tax rules and keeping abreast of changes is a significant concern.

As voted on by NSBA's members at the biennial Small Business Congress, ensuring corporate tax reform includes a workable small-business solution is **NSBA's number one priority for the 114th Congress**. This survey shows that small businesses overwhelmingly support reducing both corporate and individual tax rates coupled with reducing deductions—the only broad tax reform proposal that received the majority of small businesses' support, no surprise given that 83 percent of small businesses are pass-through entities.

Unfortunately, the current U.S. Tax Code is becoming an insurmountable hurdle for the growth of existing businesses and creation of new firms. As such, NSBA has embraced nine principles that any responsible comprehensive tax reform package ought to incorporate, which are included at the end of this survey packet.

Conducted on-line among more than 675 small-business owners March 13-24, we hope this survey provides timely and useful information on how taxes are impacting America's small-business community.

Sincerely,



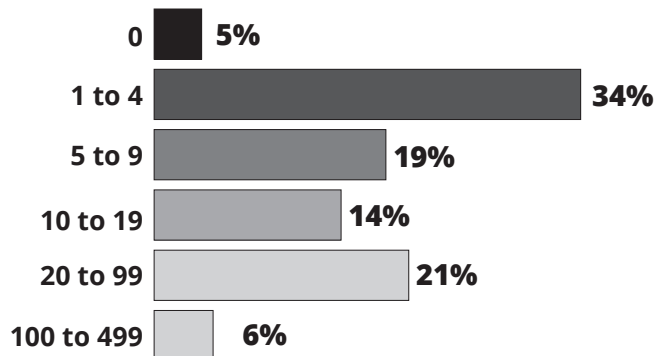
Tim Reynolds
NSBA Chair
Tribute, Inc.



Todd McCracken
NSBA President and CEO

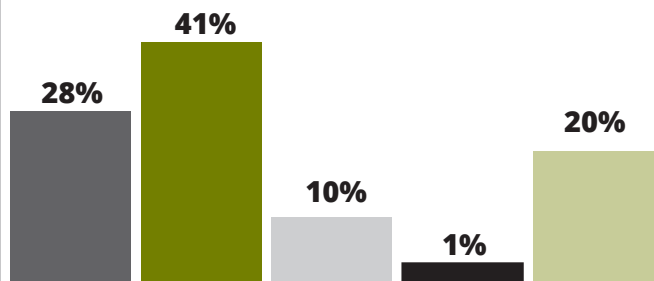
DEMOGRAPHICS

How many total full-time personnel are currently employed by your business?

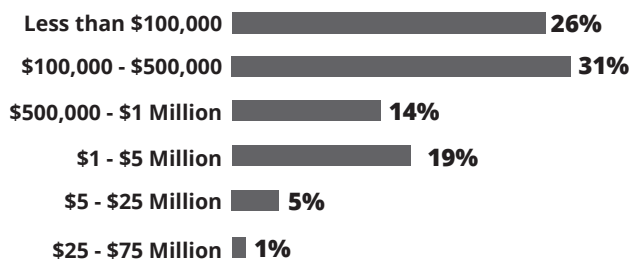


Which of the following best describes the structure of your business?

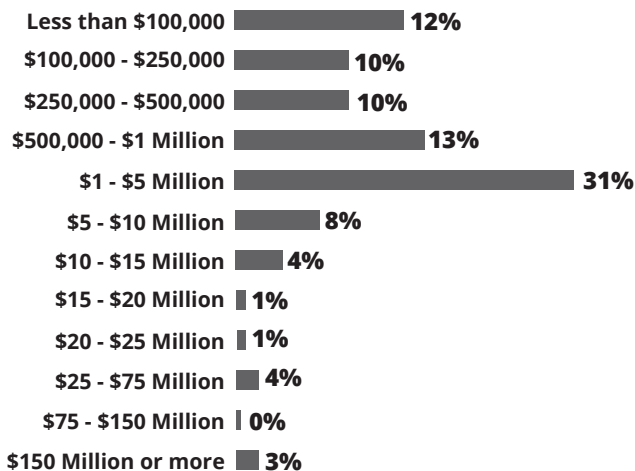
■ CORPORATION ■ PARTNERSHIP ■ S-CORP
■ LLC ■ SOLE PROPRIETORSHIP



What was your total payroll for the most recent fiscal year?



What were your gross sales or revenues for your most recent fiscal year?



Which of the following best describes the industry or sector in which your business operates?

Manufacturing	16%
Construction	11%
Professional	11%
Scientific and Technical Services	10%
Retail Trade	8%
Wholesale Trade	5%
Information (IT)	4%
Transportation and Warehousing	4%
Health Care and Social Assistance	3%
Agriculture, Forestry, Fishing and Hunting	3%
Real Estate, Rental and Leasing	2%
Educational Services	2%
Insurance	2%
Arts, Entertainment, and Recreation	2%
Finance	2%
Administrative and Support	1%
Accommodation and Food Services	1%
Public Administration	1%
Mining	1%
Other Services (except Public Administration)	11%

It is worth noting that the businesses surveyed represent a slightly larger proportion of c-corps than what is found in the at-large small-business community where approximately 17 percent are c-corps.

SMALL-BUSINESS TAX BURDEN

Complexity of the tax code remains a significant challenge to small business. One-in-three report spending in excess of 80 hours—two full work weeks—per year on federal taxes, and one-in-five spend more than 120 hours per year. Nearly half of small businesses spend \$5,000 or more annually on the administration (i.e.: accountant fees) of federal taxes alone and 27 percent report spending more than \$10,000. This is before they even pay their actual taxes!

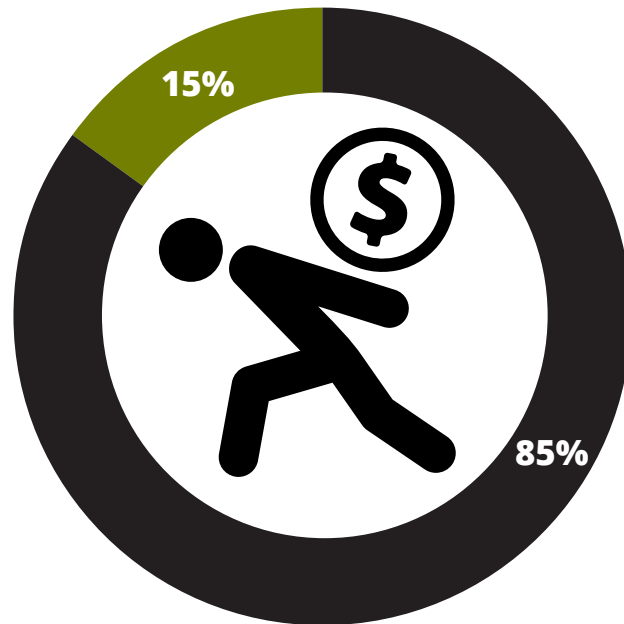
The time and money spent, coupled with the fact that 85 percent of small-business owners must pay an external tax practitioner or accountant to handle their taxes ought to be a clear signal that the tax code is far too complex. In ranking the most significant challenge to their business posed by federal taxes, the majority, 59 percent, picked administrative burdens, up from 53 percent just one year ago. Today, 42 percent said financial burdens are the primary issue associated with the federal tax code.

When asked to rank common small-business taxes based on their burden, income taxes (where the majority of small businesses, 83 percent, pay taxes on business income as pass-through entities) and payroll taxes were among the top three most burdensome taxes both financially and administratively.

Given the time and financial burden strictly with the administration of taxes, it's no wonder that 40 percent of small firms file their federal taxes under extension.

How do you prepare your company's taxes?

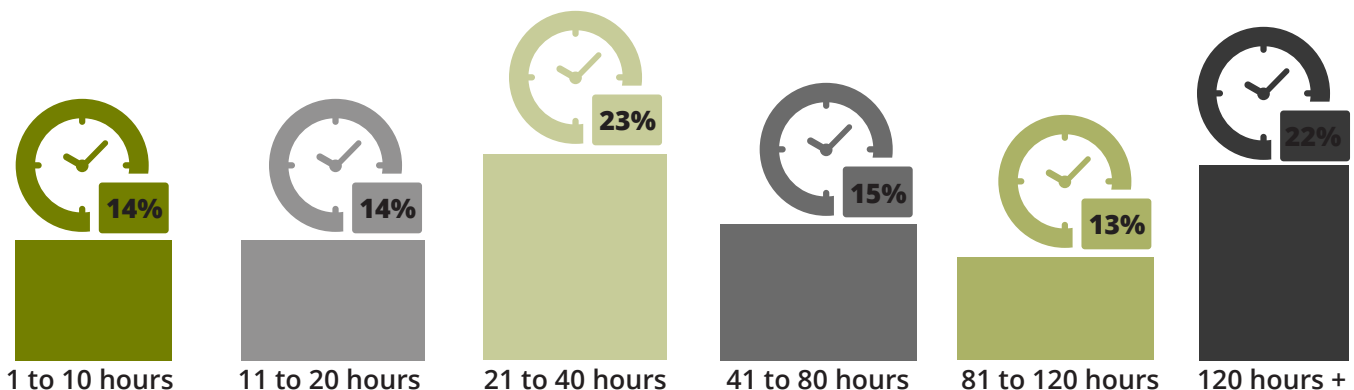
- External tax practitioner/accountant
- I or a member of my staff handles it



Please select which of the following tax filing and payment timelines best applies to your business.

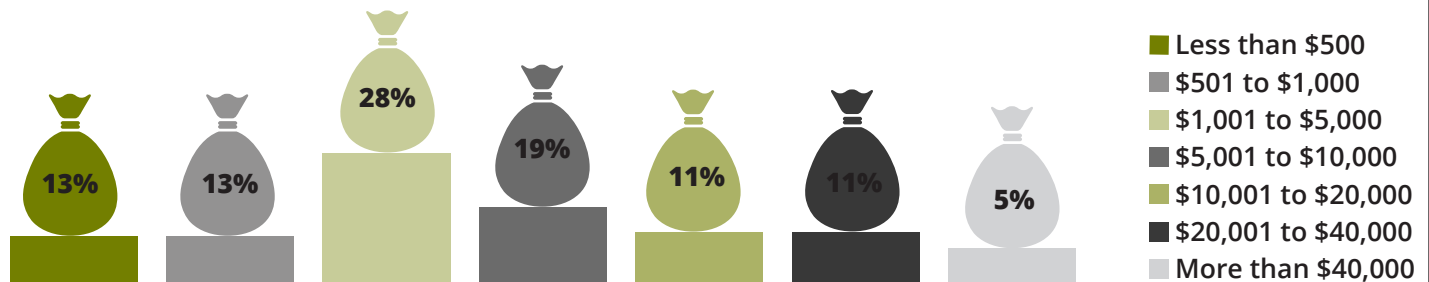
I file on time but typically don't owe anything,	12%
I file and pay on time,	49%
I file under extension but typically don't owe anything,	13%
I file and pay under extension	27%

Approximately how much TIME do you spend each year dealing with federal taxes, i.e.: calculating payroll, self-employment or any other business-related tax, filing reports, working with your accountant, estate planning, etc...?



SMALL-BUSINESS TAX BURDEN

Approximately how much MONEY do you spend each year on the administration of federal taxes NOT including your owed taxes (i.e.: accountant fees, internal costs for administration of taxes, legal fees, etc...)?



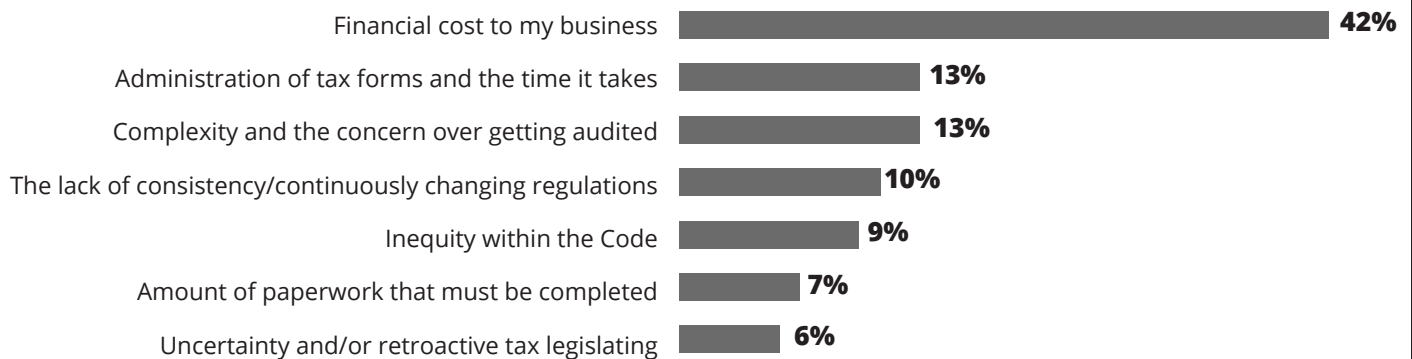
Please rank, in order of their ADMINISTRATIVE burden on you and your business, the following taxes. (1 is the most burdensome and 10 is the least burdensome)

1. Payroll taxes
2. Income taxes (I am a pass-through entity)
3. Corporate taxes (I am a c-corp)
4. State and local tax compliance
5. Sales tax
6. Medicare surcharge under Affordable Care Act
7. Alternative Minimum Tax
8. Property taxes
9. Changes to deductibility of tangible property repairs
10. Capital gains taxes

Please rank, in order of their FINANCIAL burden on you and your business, the following taxes. (1 is the most burdensome and 10 is the least burdensome)

1. Payroll taxes
2. State and local tax compliance
3. Income taxes (I am a pass-through entity)
4. Property taxes
5. Capital gains taxes
6. Sales tax
7. Alternative Minimum Tax
8. Changes to deductibility of tangible property repairs
9. Medicare surcharge under Affordable Care Act
10. Corporate taxes (I am a c-corp)

What is the largest burden posed to you by the federal tax code:



What is the largest burden posed to you by the federal tax code:

59%
2014
53%
**ADMINISTRATIVE
BURDEN**



42%
2014
47%
**FINANCIAL
BURDEN**



TAX DEDUCTIONS AND CREDITS

The overwhelming majority of small businesses, 67 percent, say that federal taxes have a significant to moderate impact on the day-to-day operation of their business and 59 percent say credits and deductions have a significant to moderate influence over their decisions about their company and employees. The top four deductions used by small firms are Section 179 expensing, the home mortgage interest deduction, the home office deduction and bonus depreciation.

When asked, generally, what deductions are most important to small-business growth, the majority said allowing the full deduction for health insurance costs—something that self-employed individuals still cannot do. Section 179 expensing, start-up costs deduction and bonus depreciation rounded out the top four.

The majority of small businesses, 69 percent, report utilizing some kind of tax benefit covered under the extenders umbrella, making the continual instability and lack of predictability—not to mention passing retroactive tax extender bills—a major headache for these small firms.

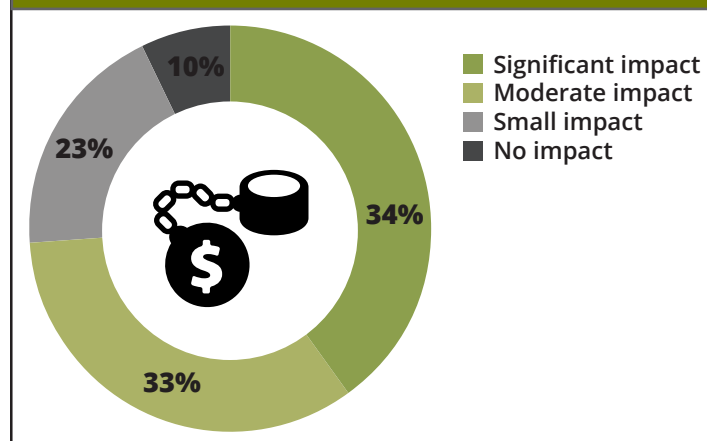
Which of the following deductions or credits do you take advantage of? (Check all that apply)

Sec. 179 expensing	37%
Home mortgage interest deduction	30%
Bonus depreciation	23%
Home office deduction	22%
15-year straight-line cost recovery	10%
R&E (Also called R&D) credit	10%
Energy efficiency credits	6%
Start-up costs deduction	5%
Work Opportunity Tax Credit	3%

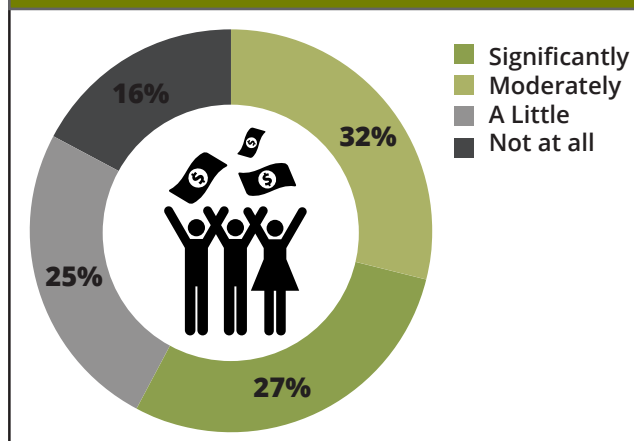
Which of the following deductions or credits do you think are most important to stimulating small-business growth? (check all that apply)

Allow full deduction for health insurance costs for self-employed	68%
Sec. 179 expensing	44%
Start-up costs deduction	35%
Bonus depreciation	34%
Home mortgage interest deduction	27%
Work Opportunity Tax Credit	26%
R&E tax credit	25%
Home office deduction	25%
15-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and qualified retail improvements	24%
Energy efficiency credits	17%

How much of an impact would you say federal taxes have on the day-to-day operation of your business?



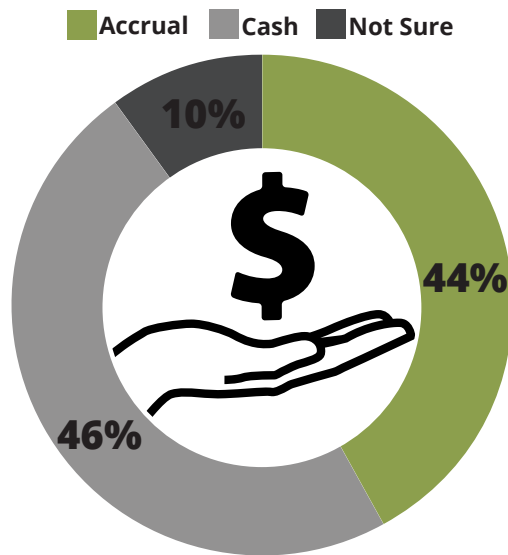
How much do tax credits and/or deductions influence your decisions about your company and/or employees?



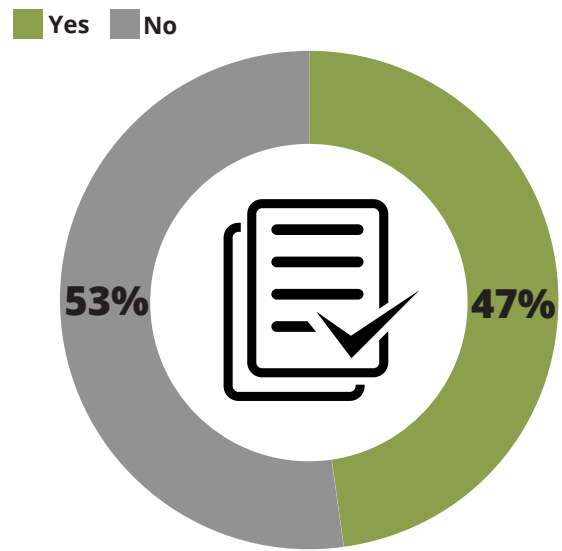
ACCOUNTING AND INVENTORY

Providing flexibility and simplicity to small businesses in which method of accounting they use for tax purposes is important. Cash accounting—widely seen as a simpler, more straightforward method of accounting—is utilized by 46 percent of small businesses. It is also important that small-business owners have flexibility when it comes to inventory cost methods: the majority report that if the Last-in, First-out (LIFO) method was no longer an option, it would have a significant to moderate impact on their firms.

Which accounting method do you use for reporting your taxes?



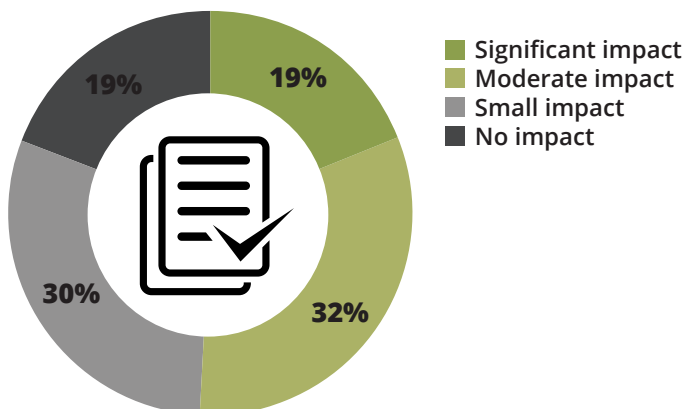
Do you have inventory for your business?



Which method do you use for purposes of determining your company's inventory cost?



If LIFO were no longer an option for inventory accounting, please estimate the impact on your business of conforming to a different inventory accounting method.



Nearly half of small firms utilize cash accounting as a simpler, more straightforward method for their firms.

PAYROLL

Payroll taxes were ranked as the number one most burdensome tax both financially and administratively among small firms. The complexity of payroll taxes is a likely driver of the fact that the majority of firms with more than five employees use an external payroll company. One-in-three small firms report spending more than \$500 per month on payroll services – this amounts to more than \$6,000 per year.

Among those small businesses who handle payroll taxes internally, one-in-five report spending more than six hours per month and one-in-ten report spending more than 10 hours per month. While 10 hours per month may not sound overly burdensome, it amounts to more than 120 hours per year, or three full work weeks.

Among firms who pay an external payroll administration company, one-fourth report they still spend more than six hours on the administration of payroll taxes.

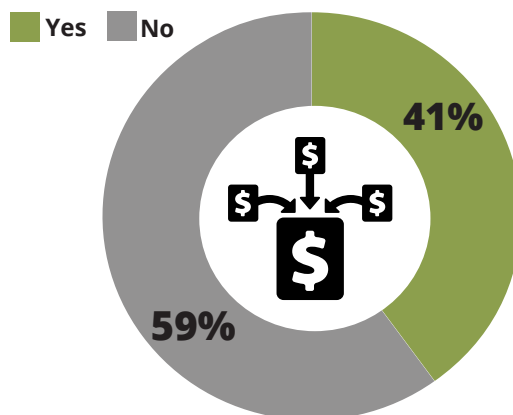
If you handle payroll internally, approximately how much time do you spend on the administration of payroll taxes?

No time – I have no employees	22%
1 to 2 hours per month	30%
3 to 5 hours per month	27%
6 to 10 hours per month	12%
More than 10 hours per month	9%

Even if you pay an outside payroll company, please estimate the amount of time you spend on the administration of payroll taxes?

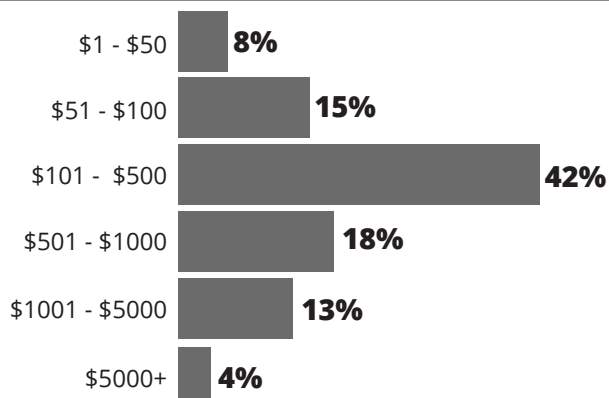
No time – I have no employees	2%
1 to 2 hours per month	42%
3 to 5 hours per month	31%
6 to 10 hours per month	13%
More than 10 hours per month	13%

Do you use a payroll service like ADP or Paychex to prepare your payroll?



One-third of small firms spend more than \$6,000 per year on the administration of payroll and payroll taxes.

Approximately how much MONEY do you spend per month with the payroll company?



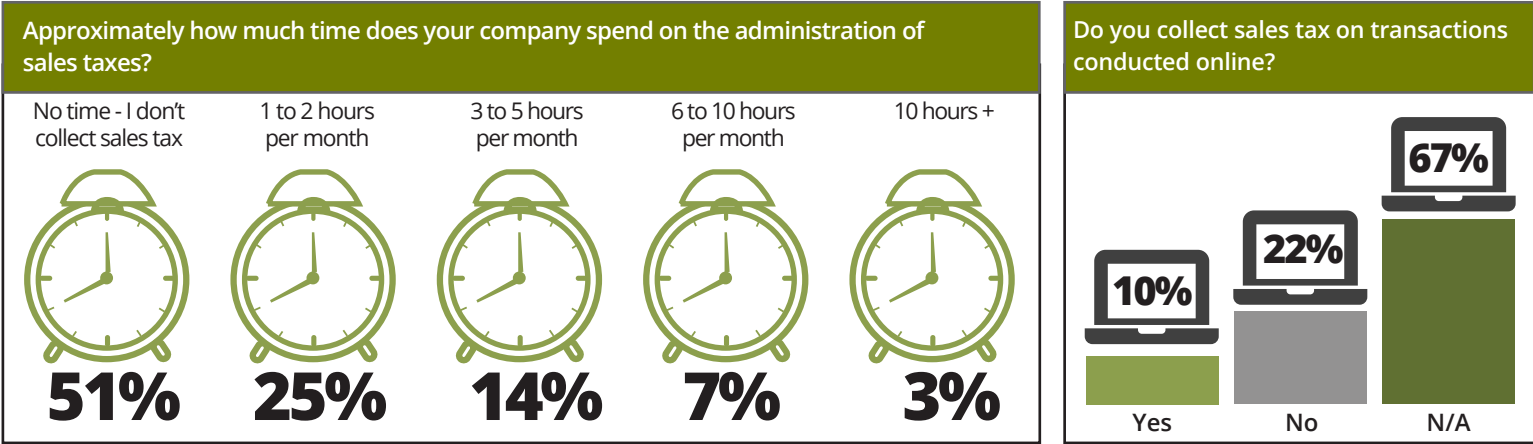
SALES TAX

While nearly half of the small businesses report they don't collect sales taxes—likely due to the high proportion of professional services, construction and manufacturing businesses among the respondents—24 percent report spending three hours or more per month on the administration of sales taxes. Again, taken just per-month it may not sound like a significant burden, but taken over the entirety of the year, it amounts to nearly one full work week.

The survey results underscore the divide among small-business owners when it comes to proposals to mandate sales tax collection of online purchases by small firms. Thirty-six percent of small-business owners—even those who do not

currently have any online transactions—would support some kind of requirement with varying degrees of exemptions and/or safe-harbor protections for the firm. Forty-nine percent oppose any kind of requirement, and 22 percent just aren't sure.

When it comes to mandating sales tax collection on online purchases, the biggest concerns expressed by small businesses had to do with complexity and the resulting potential for tax liability. Considering the massive web of state, county, city and municipality sales tax rules, it's no wonder the most significant concerns were navigating various state tax rules and keeping abreast of changes.



- Please rank the most important small-business protection when it comes to proposed online streamlined sales tax requirements.
1. Exemption for small firms under a certain gross receipts threshold

2. Free

3. Safe-harbor for inadvertent tax mistakes

4. One centralized collection office within states

5. Reduced administrative and paperwork burdens

Please indicate how significant a burden each of the following issues is when it comes to small firms collecting online, multi-state sales tax.

	Significant concern	Moderate concern	Not a concern
Cost of software to calculate sales tax	37%	30%	33%
Reliability of software to calculate sales tax	35%	30%	35%
Threat of tax liability in case of inadvertent errors	49%	29%	24%
Threat of increased audits	47%	26%	27%
Navigating various state tax rules and deadlines	57%	20%	23%
Keeping abreast of various state tax changes (incl. rate and deadline changes)	57%	22%	21%
Appropriate holding and disbursement of collected sales tax	46%	26%	28%

SALES TAX

Would you support a requirement that all companies be subject to state sales taxes, even if that company is located in a different state and all sales are online?

Yes, if the states' sales tax systems were streamlined or simplified	18%
Yes, with an exemption for companies with less than \$1 million in annual revenue	6%
Yes, with an exemption for companies with less than \$5 million in annual revenue	4%
Yes, with an exemption for companies with less than \$10 million in annual revenue	2%
Yes, with an exemption for companies with less than \$30 million in annual revenue	2%
Yes, with no exemptions	4%
No	49%
Not Sure	22%

“The majority of small firms say navigating state sales tax rules and keeping abreast of changes is a significant concern.”

TAX POLICY

As voted on by NSBA's members at the biennial Small Business Congress, ensuring corporate tax reform includes a workable small-business solution is **NSBA's number one priority for the 114th Congress**. This survey underscores that priority in that a large majority (70 percent) support reducing both corporate and individual tax rates coupled with reducing both business and individual deductions. This was the only broad reform proposal that received the majority of small businesses' support – no surprise given that 83 percent of small businesses are pass-through entities.

As NSBA has been warning for quite some time, addressing just one piece of the puzzle to effectively reduce the deficit—such as corporate tax reform alone—without all pieces will lead to even greater complexity and a massive tipping of the scales in favor of the nation's largest companies at the expense of small businesses.

Please indicate your level of support for each of the following tax reform proposals



SUPPORT



DON'T SUPPORT



NOT SURE

Reduce both corporate and individual tax rates, and reduce both business and individual deductions	70%	13%	17%
A broad reform of the tax system in-line with the Fair Tax (elimination of all income and corporate tax rates as well as all deductions, and instead implement a 23 percent tax on the end point-of-sale for all goods)	49%	24%	27%
Reduce the corporate tax rate and eliminate some business deductions	46%	22%	31%
A European type value added tax	7%	56%	37%
Moving the current U.S. tax system from a "worldwide" tax system, in which all income is taxed regardless of its origin, to a "territorial" system, in which all foreign-source income is exempted from tax	19%	48%	33%

Please indicate your level of support for each of the following deficit-reducing proposals do you support?



SUPPORT



DON'T SUPPORT



NOT SURE

An across-the-board budget cut for federal agencies	65%	24%	11%
Eliminate all tax credits and deductions in conjunction with dramatically lower income tax rates	55%	24%	21%
Eliminate certain tax credits and deductions—even those which may benefit my business	40%	30%	31%
Greater authority of the president to reduce Congressionally-approved spending (line-item veto)	36%	49%	15%
Raise taxes on the highest-earning individuals	30%	55%	14%
Reform and reduce entitlement spending	82%	11%	7%

NSBA TAX REFORM CHECKLIST

SMALL BUSINESS NEEDS TAX REFORM NOW!

PRINCIPLES OF TAX REFORM

- ✓ **DESIGNED TO TAX ONLY ONCE**
- ✓ **STABLE AND PREDICTABLE**
- ✓ **VISIBLE TO THE TAXPAYER**
- ✓ **SIMPLE IN ITS ADMINISTRATION AND COMPLIANCE**
- ✓ **PROMOTE ECONOMIC GROWTH AND FAIRNESS BETWEEN LARGE & SMALL BUSINESSES**
- ✓ **USE COMMONLY UNDERSTOOD FINANCE/ACCOUNTING CONCEPTS**
- ✓ **GROUNDING IN REALITY-BASED REVENUE ESTIMATES**
- ✓ **FAIR IN ITS TREATMENT OF ALL CITIZENS**
- ✓ **TRANSPARENT**

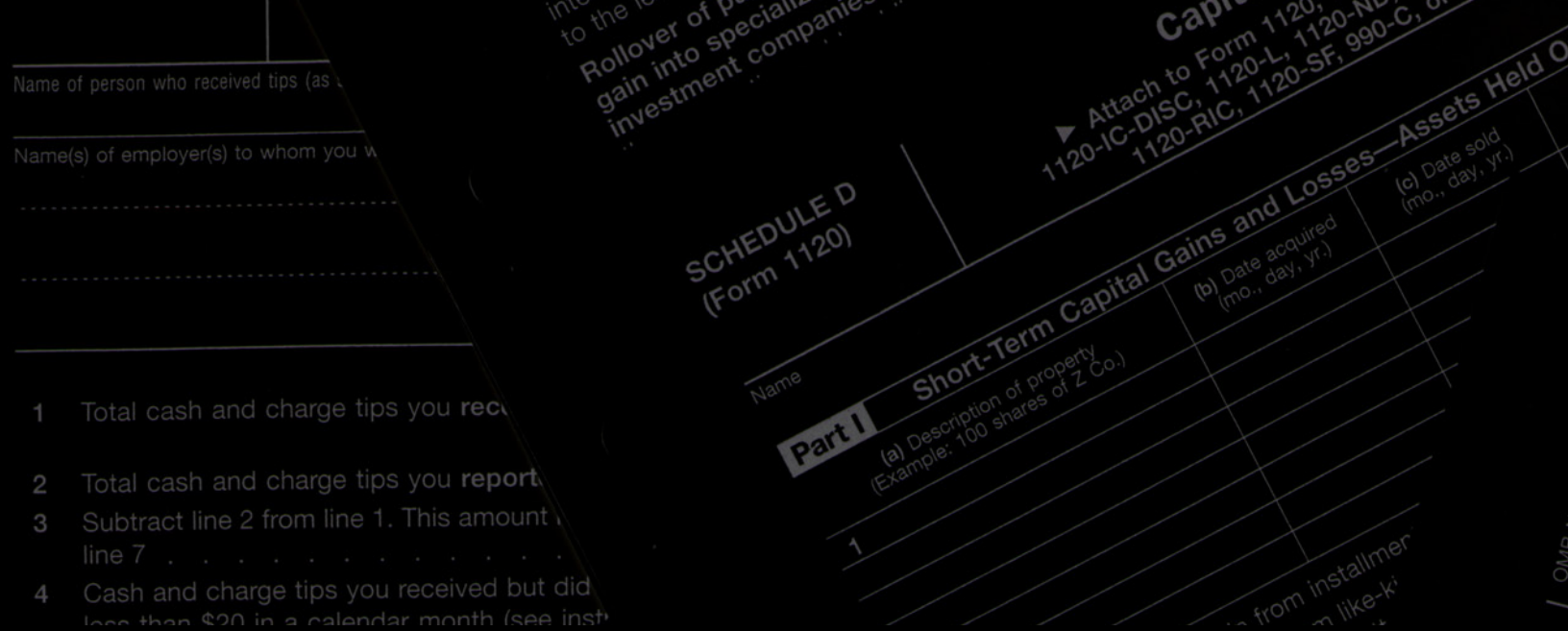
The tax code is inherently unfair to small businesses, and the time for serious tax reform has come. Weighing in at more than 70,000 pages, the U.S. Tax Code punishes work, investment, risk-taking and entrepreneurship.

America's small-business owners have consistently ranked "tax reform" among the top issues for Congress to address, yet our elected officials continue to prioritize scoring political points over passing sound policy, especially when it comes to tax reform.

We need tax reform and we need it now.

NSBA
National Small Business Association





METHODOLOGY

The 2015 Small Business Taxation Survey was conducted online March 13-24 among more than 675 small-business owners representing every industry in every state in the nation. The small business respondents represent both NSBA members—which tend to be older, more well-established small businesses—as well as nonmembers.

