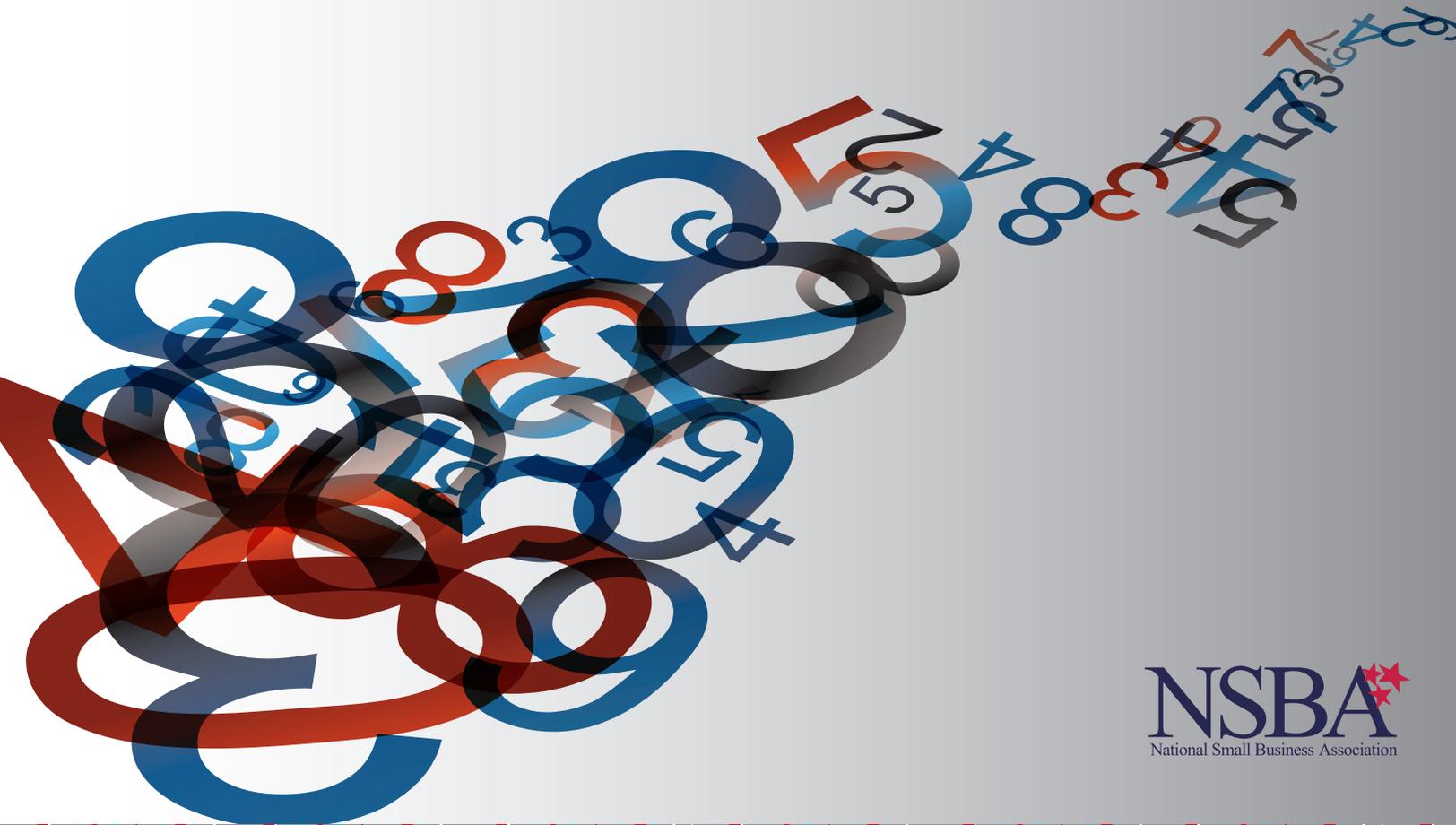


# 2011 Small Business Taxation Survey



# FOREWORD



NSBA Chair Larry Nannis

With just days until the April 18 income tax deadline, taxation weighs heavily on America's small-business community. Federal taxes are routinely ranked among the top issues facing small businesses and pose a huge time and financial burden for small-business owners. NSBA has surveyed its membership on a broad array of federal taxes and tax policies, and is pleased to provide the results of that survey this document, the NSBA 2011 Small Business Taxation Survey.

Since 1937, NSBA has been the nation's leading small-business advocate. As part of NSBA's mission to address the needs and represent the concerns of the small-business community, we conduct a series of targeted surveys and quick polls throughout the year, including our semiannual [Economic Reports](#).

Small businesses consistently rank reducing the tax burden among their top issues for Congress and the administration to address. Although the actual out-of-pocket cost is a huge issue, the sheer complexity of the tax code has been an ever-increasing thorn in the sides of America's small businesses.

Complexity and inconsistency with the tax code are driving the significant time and monetary contributions small businesses are putting toward complying with federal taxes. The overwhelming majority (57 percent) spend one full work-week per year dealing with federal taxes. One-third of small-business owners are spending in excess of \$10,000 on the administration of federal taxes – money that could easily pay for a half-time employee.



NSBA President Todd McCracken

One of the most commonly misunderstood facts about federal taxes and small business is that the overwhelming majority of small businesses pay taxes on their business at the personal income level. According to past NSBA data on the U.S. small-business community, 83 percent of small businesses are set up as pass-through entities, meaning that all income of the small business is passed through to the owner's or shareholders' income and is then taxed as any other individual's income is taxed. It is imperative that policymakers consider that a mere 17 percent of small businesses pay their taxes through the corporate tax structure.

Among the many noteworthy results of the survey is the fact that less than half (47 percent) of eligible small-business owners utilize the home office deduction, and the primary reason they don't is due to concern that it will "red-flag" them for an IRS audit.

When it comes to tax policy, small businesses expressed support for deficit reduction policies that reign-in entitlement spending, and tax reform that reduces both corporate and individual tax rates coupled with a reduction in business and individual deductions.

Conducted on-line among more than 300 NSBA members the last two weeks of March, we hope this survey provides timely and useful information on how taxes are impacting America's small-business community.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry Nannis".

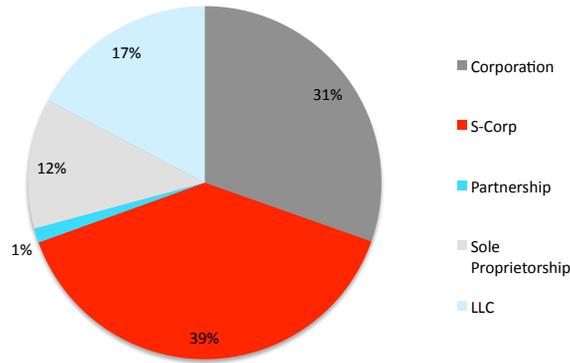
Larry Nannis, CPA,  
NSBA Chair  
Levine, Katz, Nannis + Solomon, P.C

A handwritten signature in black ink, appearing to read "Todd O. McCracken".

Todd O. McCracken  
NSBA President and CEO

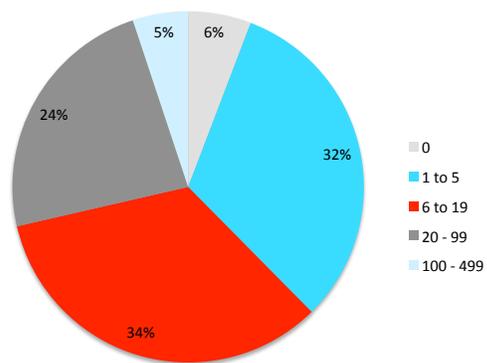
**FIGURE 1 - BUSINESS STRUCTURE**

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



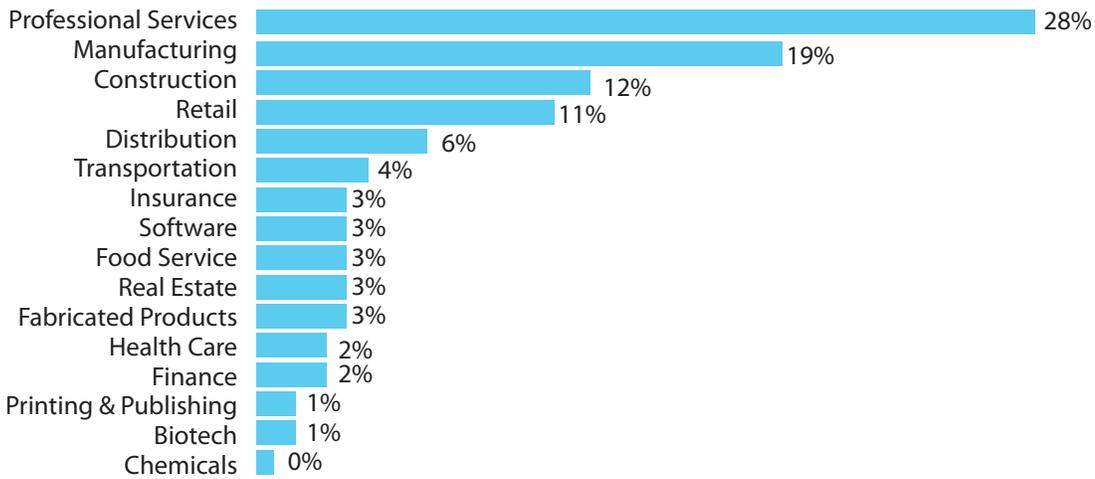
**FIGURE 2 - NUMBER OF EMPLOYEES**

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



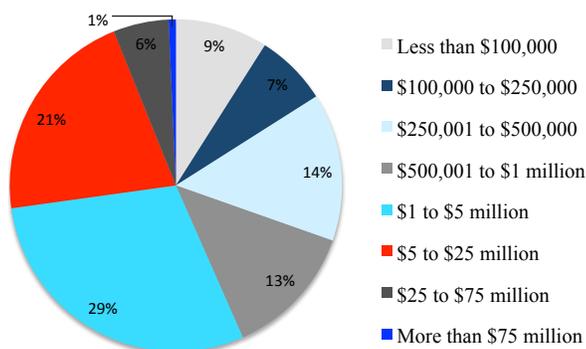
**FIGURE 3 - INDUSTRY**

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



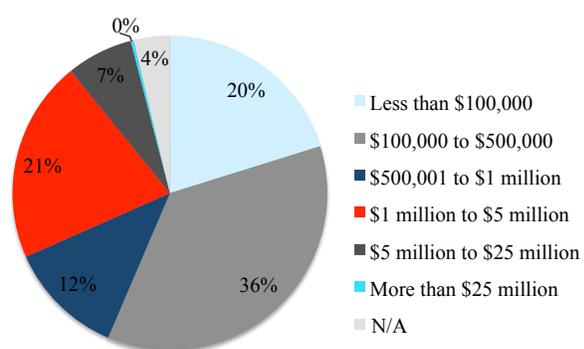
**FIGURE 4 - SALES/REVENUES**

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



**FIGURE 5 - PAYROLL**

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



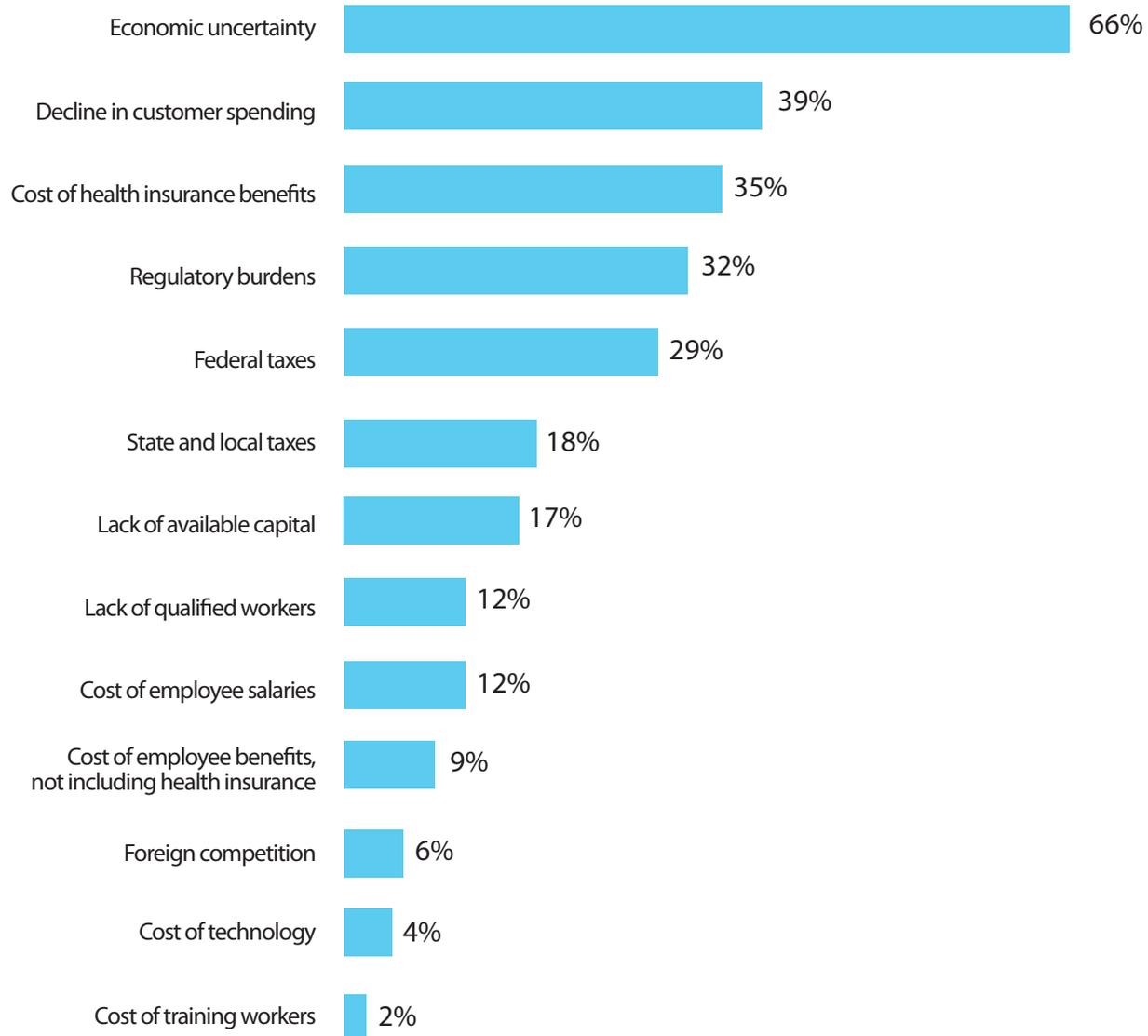
It is worth noting that the businesses surveyed represent a slightly larger proportion of c-corps than what is found in the at-large small-business community where approximately 17 percent are c-corps. Additionally, employee size and revenues are slightly larger among the survey sample than what is generally found among the at-large small-business community. Finally, NSBA members represent a slightly higher proportion of manufacturers and professional services.



**R**espondents were asked to rank the most significant challenges to the future growth and survival of their business and, similar to the [2010 Year-End Economic Report](#) economic uncertainty was at the top of the list. Decline in customer spending was a distant second followed by cost of health insurance, regulatory burdens and federal taxes.

**FIGURE 6 - SIGNIFICANT CHALLENGES**

**What are the most significant challenges to the future growth and survival of your business?**





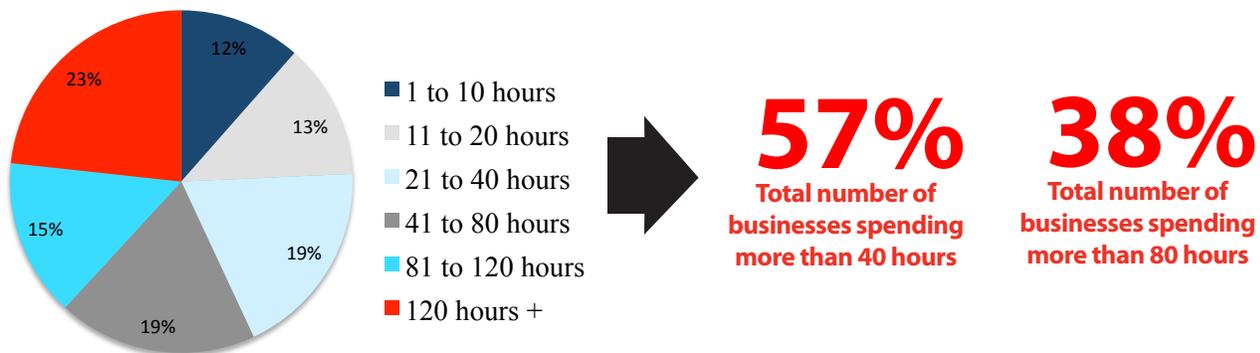
One would hope that the fact that only 13 percent of small-business owners handle their taxes internally—meaning 87 percent are forced to pay an external accountant—sends a strong message to the IRS and Congress that the tax code is far too complex.

Interestingly, the financial and administrative burden small-businesses feel is nearly identical for various taxes. When asked to rate a series of 12 common small-business taxes both in terms of financial and administrative burden, payroll taxes, state and local taxes, property taxes and income taxes rounded out the top four.

**FIGURE 7 - TIME SPENT ON FEDERAL TAXES**

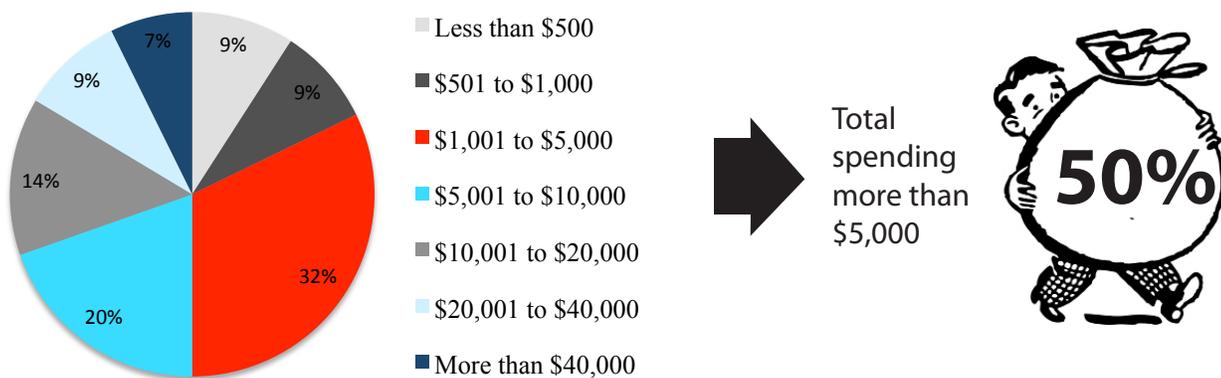
**Approximately how much time do you spend each year dealing with federal taxes?,**

(i.e. calculating payroll, self-employment or any other business-related tax, filing reports, working with your accountant, estate planning, etc)



**FIGURE 8 - MONEY SPENT ON FEDERAL TAXES**

**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...)



More than one-third of small-business owners are spending two weeks and more dealing with federal taxes. This is wildly unfair and cannot continue. - [Larry Nannis, CPA, NSBA chair and shareholder at Levine, Katz, Nannis + Solomon, PC.](#)

**FIGURE 9 - HOW TAXES ARE PREPARED**

How do you prepare your taxes?



87%

Tax practitioner/  
accountant



Tax software  
on computer



Personally calculate taxes  
and fill out the paper forms



Electronic  
Filing



Staff member calculates taxes  
and fills out the paper forms

**FIGURE 10 - ADMINISTRATIVE BURDEN**

Please rank, in order of their administrative burden on you and your business, the following taxes.

- |  |                                    |
|--|------------------------------------|
| 1. Payroll taxes                             | 7. Estate tax                      |
| 2. State and local tax compliance            | 8. Alternative Minimum Tax         |
| 3. Property taxes                            | 9. Corporate taxes (I am a c-corp) |
| 4. Income taxes (I am a pass-through entity) | 10. Excise taxes                   |
| 5. Sales tax                                 | 11. International taxes (I export) |
| 6. Capital gains taxes                       | 12. Import taxes (I import)        |

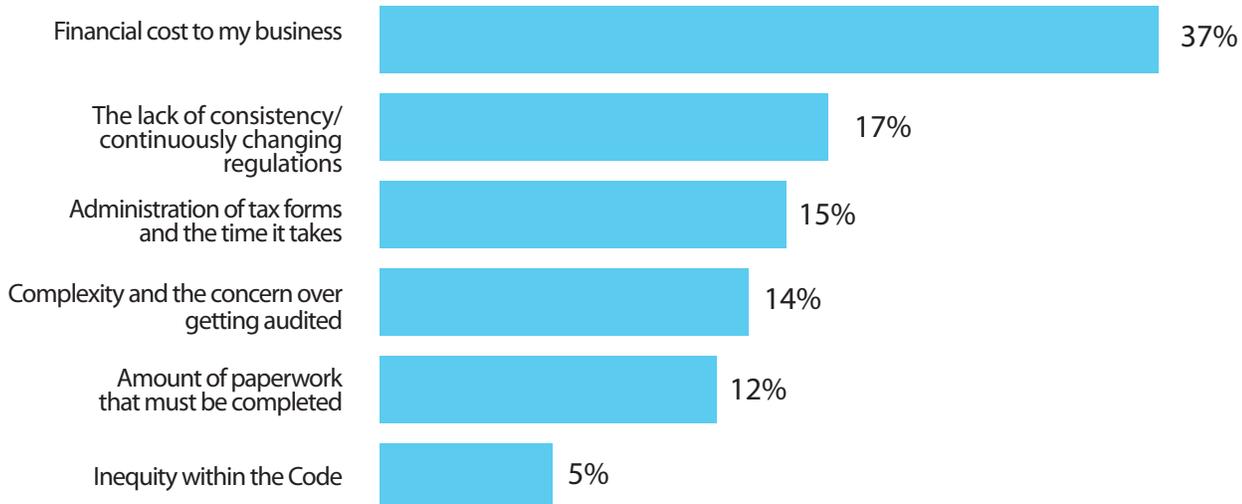
**FIGURE 11 - FINANCIAL BURDEN**

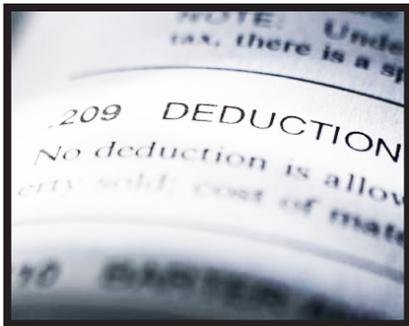
Please rank, in order of their financial burden on you and your business, the following taxes.

- |  |                                    |
|--|------------------------------------|
| 1. Payroll taxes                             | 7. Alternative Minimum Tax         |
| 2. State and local tax compliance            | 8. Estate tax                      |
| 3. Property taxes                            | 9. Corporate taxes (I am a c-corp) |
| 4. Income taxes (I am a pass-through entity) | 10. Excise taxes                   |
| 5. Sales tax                                 | 11. International taxes (I export) |
| 6. Capital gains taxes                       | 12. Import taxes (I import)        |

**FIGURE 12 - LARGEST TAX BURDEN**

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

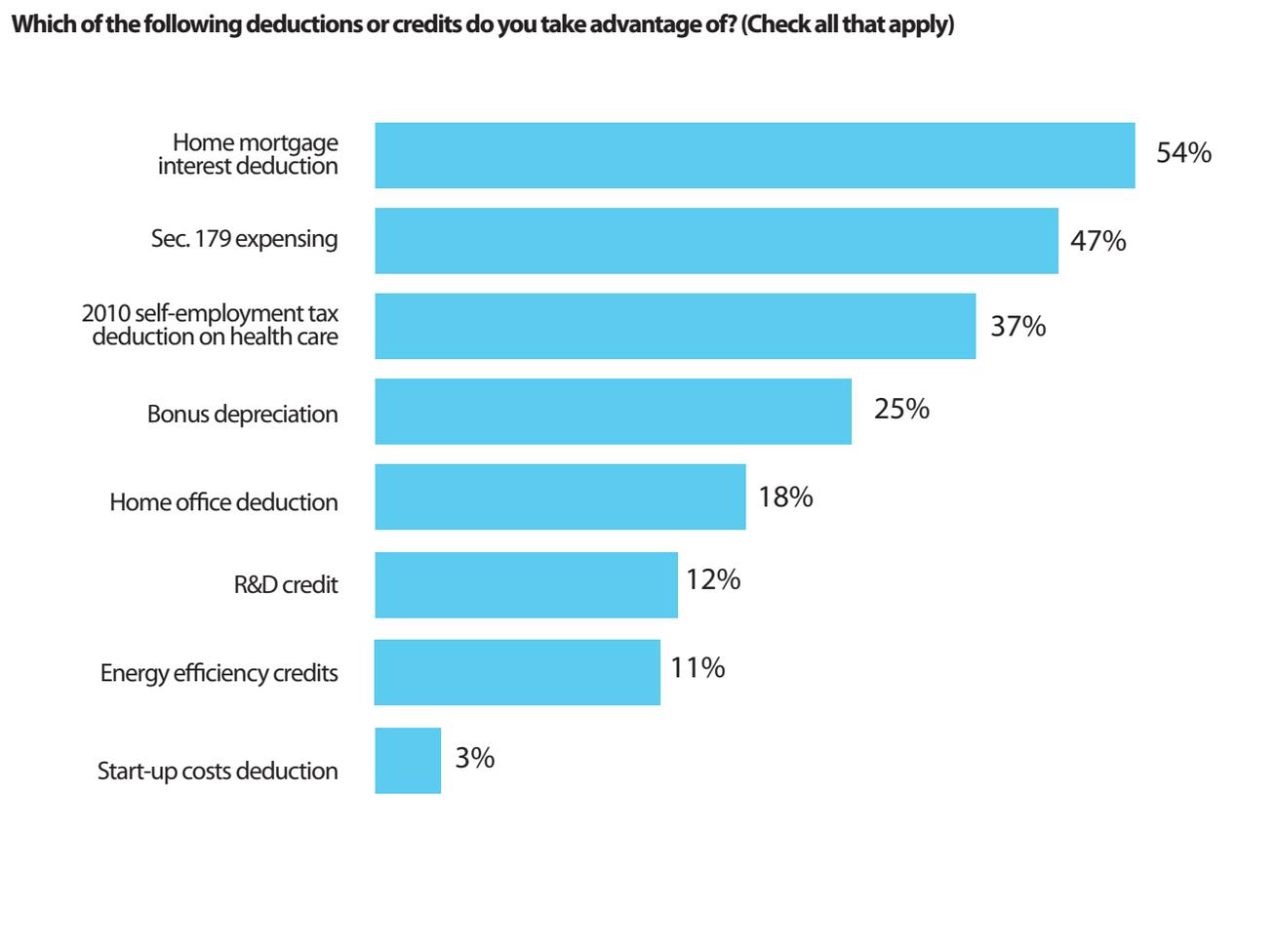




**A**lthough small businesses can certainly benefit from various deductions and credits within the tax code, the administrative complexity and lack of consistency in the U.S. tax code weighs heavily on small business. This complexity has driven NSBA to endorse tax reform ideas such as the Fair Tax which would, in short, replace the current tax code with a 23 percent national sales tax.

In the meantime, these deductions show that small businesses would most benefit by extensions to expanded section 179 expensing as well as permanency to the one-year provision included in the *Small Business Jobs and Credit Act of 2010* which allows self-employed individuals—for 2010 only—to deduct the full cost of their health insurance from their self employment taxes. Something they otherwise are prohibited from doing which results in an additional 15.3 percent tax on the cost of their health insurance.

**FIGURE 13 -DEDUCTIONS & CREDITS**

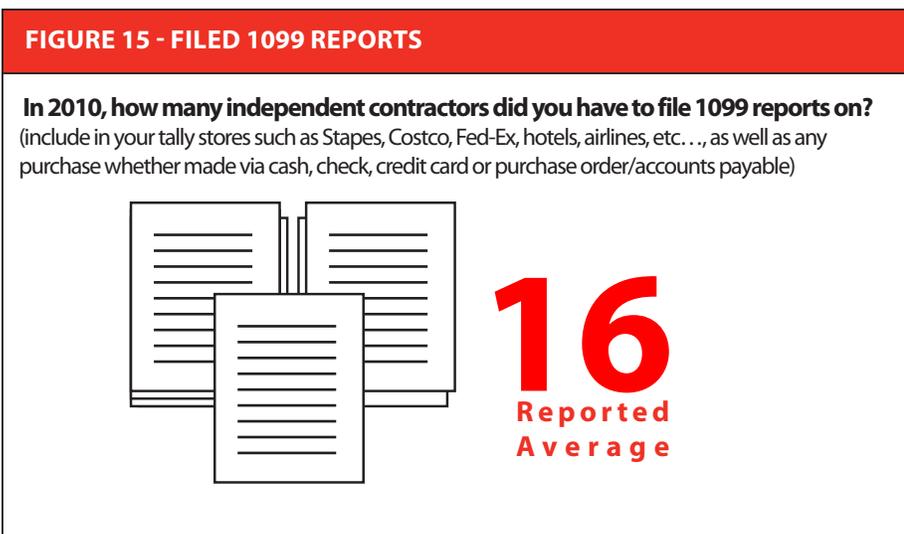


**O**n April 5, 2011, NSBA won a major battle in repealing the expanded 1099 reporting provision that was included as a pay-for in the *Patient Protection and Affordable Care Act (PPACA)*. Nearly one year ago, Congressman Dan Lungren (R-Calif.) introduced a bill to repeal the expanded 1099 reporting provision which gained broad, bipartisan support. The House passed the most recent iteration of Lungren's bill, H.R. 4, on March 3, 2011. In the Senate, Sen. Mike Johanns (R-Neb.) led the charge for 1099 repeal and most recently offered mirror language to H.R. 4 which was approved April 5, 2011 by a margin of 87 to 12 by the Senate.

Currently, businesses only have to file a 1099 for service-providing non corporations with which they spend more than \$600 per year. Under the expanded reporting provision, a small business would have had to report on ALL companies – services and goods, corporations and non corporations – with which they spent in excess of \$600 annually.

Approximately one year ago, NSBA surveyed its membership when this issue had just come to light. Back then, small businesses reported that the new law would increase the number of companies they would be required to file 1099 reports on from an average of 10 companies to 86.

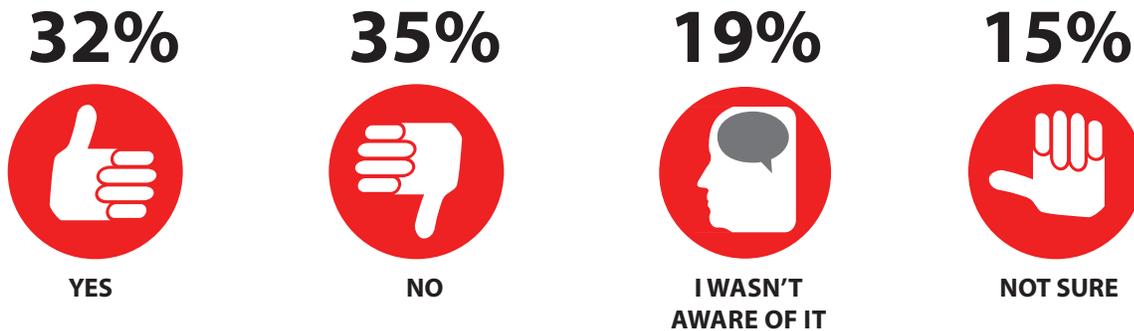
Now, after NSBA has worked the last year to spread awareness of this egregious provision, we likely have a more accurate picture of the impact this law would have had, which is more than double what was initially reported – small businesses now estimate they will have to complete 1099s on 178 companies under the new law whereas currently they only file 16.



While the new W2 reporting requirement doesn't constitute a financial burden, it does add a new level of complexity to employers in filing W2s for their employees. Given the high number of small-business owners who reported handling payroll issues internally rather than utilizing an external company, the majority reporting negative implications is to be expected. - [Larry Nannis, CPA, NSBA chair](#)

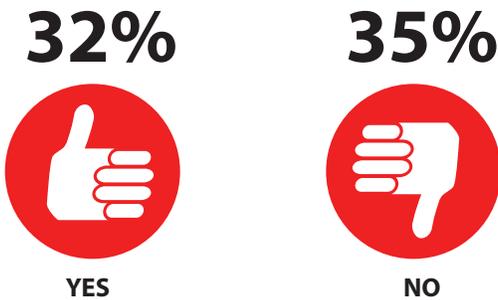
**FIGURE 16 - SMALL BUSINESS JOBS ACT HEALTH INSURANCE FIX**

Included in the Small Business Jobs Act was a provision enabling self-employed individuals to fully deduct the cost of their health insurance for 2010, thereby foregoing the self-employment taxes that have previously been assessed on health insurance premiums. Do you plan to take advantage of this one-year fix?



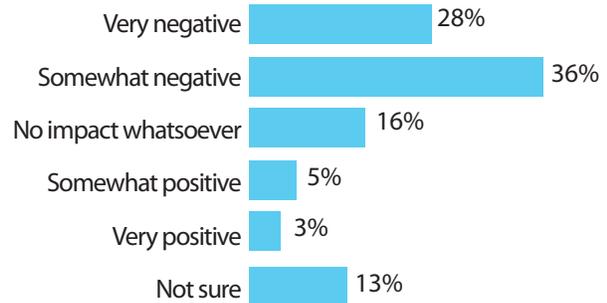
**FIGURE 17 - HEALTH INSURANCE REPORTED ON W2'S**

Are you aware of the new requirement which goes into effect in 2012 that all health insurance spending by your company be reported on employees' W2 forms?



**FIGURE 18 - IMPACT OF W2 REQUIREMENT**

How do you expect this new requirement to impact your business?

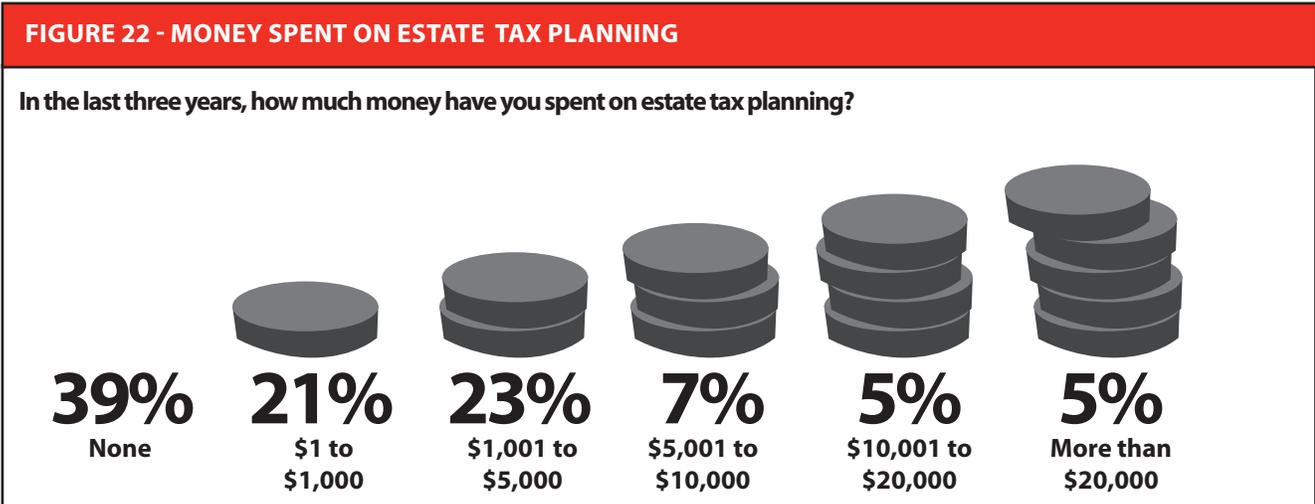
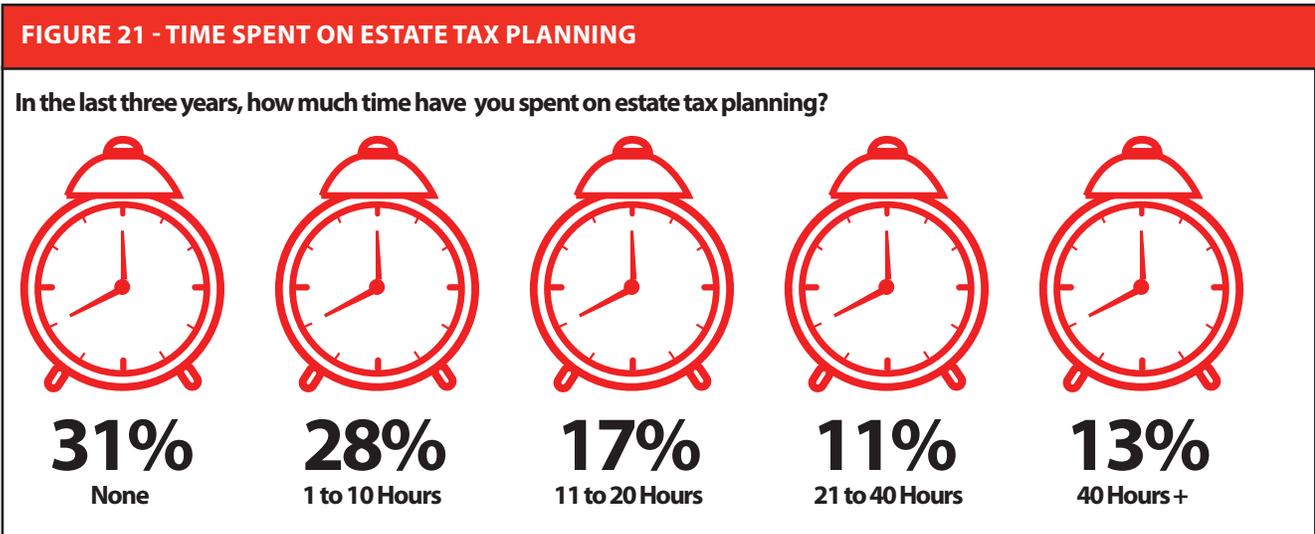


**FIGURE 16 - SMALL BUSINESS HEALTH CARE TAX CREDIT QUALIFICATION**

Will your business qualify for the small-business health care tax credits as passed under the new health care law?



“ Given the relatively higher proportion of professional services and manufacturing businesses among the respondents of the survey, it is expected that the majority don't collect sales taxes. - [Todd McCracken, NSBA President](#) ”



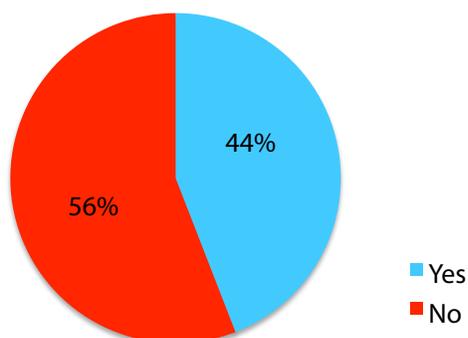


While it may not seem significant in monthly increments, more than one in four small businesses spend in excess of \$500 per month on payroll services. This equals more than \$6,000 per year that could be better spent elsewhere in a small business.

For those small businesses that pay an external payroll company, there still exists a notable time investment in providing all necessary details to the company. Nearly one-third of small-business owners spend more than six hours per month handling payroll—even though they also pay an outside company.

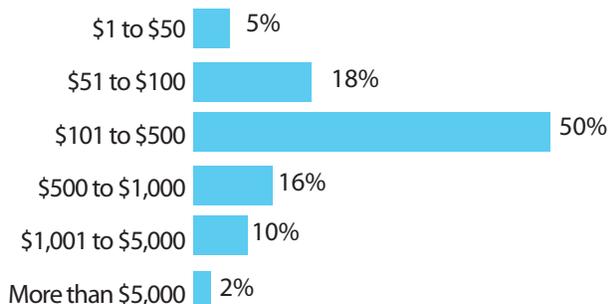
**FIGURE 23 - USE OF PAYROLL SERVICES**

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



**FIGURE 24 - MONEY SPENT ON PAYROLL SERVICES**

If you use an external payroll company, approximately how much MONEY do you spend per month with the payroll company?



**FIGURE 25 - TIME SPENT ON ADMINISTRATION OF PAYROLL TAXES**

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



**FIGURE 26 - TIME SPENT ON ADMINISTRATION OF PAYROLL TAXES - INTERNALLY**

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





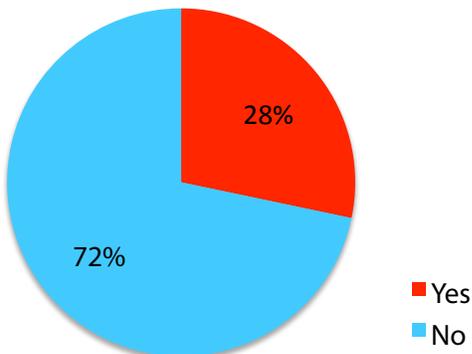
The home office deduction is a tax benefit that many eligible small businesses choose not to utilize for a number of reasons including concerns over audits, rigid criteria to qualify, complex paperwork and the time-consuming nature of the deduction.

Seventy-five percent of eligible small-business owners who utilize a home office deduction would take a standardized deduction whereas only 47 percent take advantage of the current, itemized deduction available.

Although a standardized deduction would certainly ease paperwork and time, small-business owners still would have to keep on-hand evidence and receipts to justify their taking of a home office standard deduction. This is likely why few small-business owners would be willing to take less than their itemized deduction, even if it means it would be a more simple, streamlined standardized deduction.

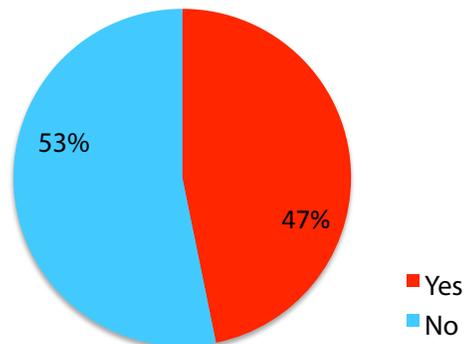
**FIGURE 27 - UTILIZE HOME OFFICE DEDUCTION**

Do you currently utilize a home office for your business?



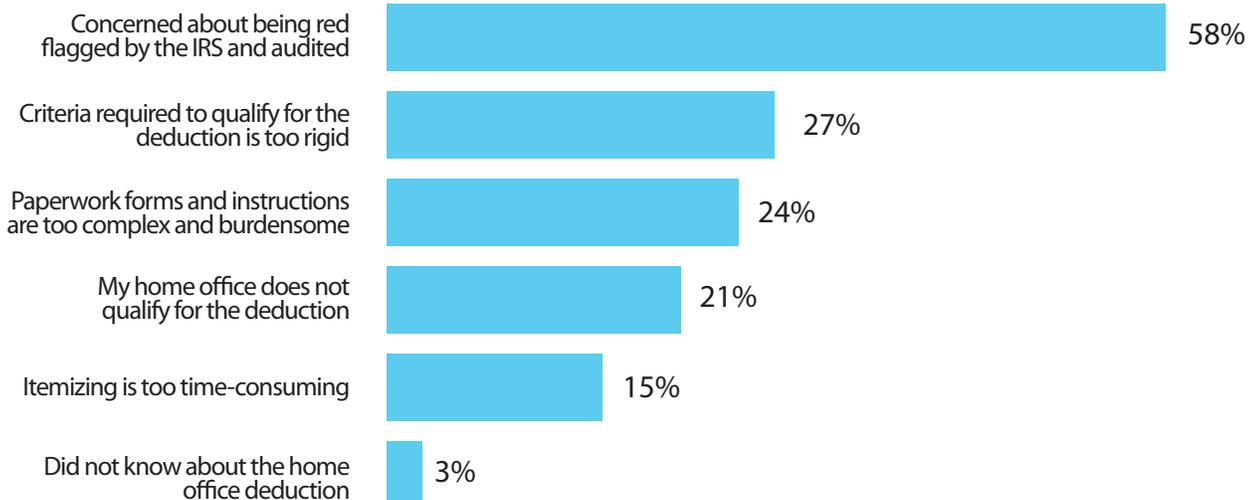
**FIGURE 28 - TAKING THE HOME OFFICE DEDUCTION**

If you do utilize a home office, do you currently take the home office deduction?

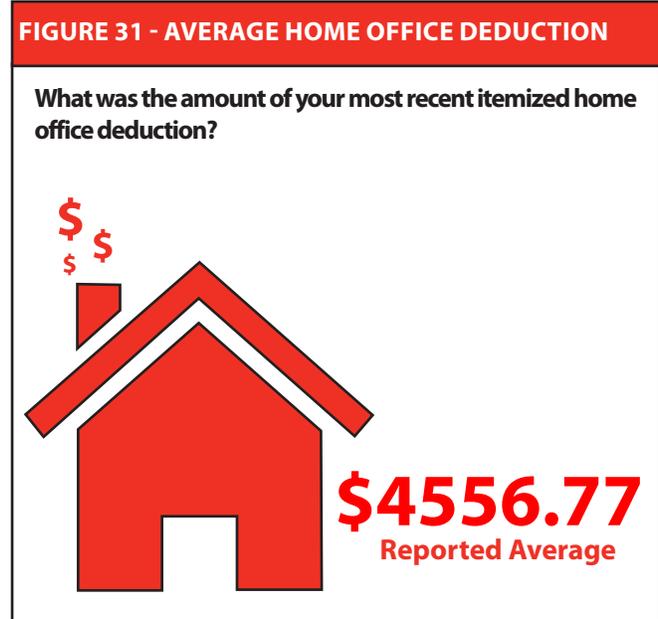
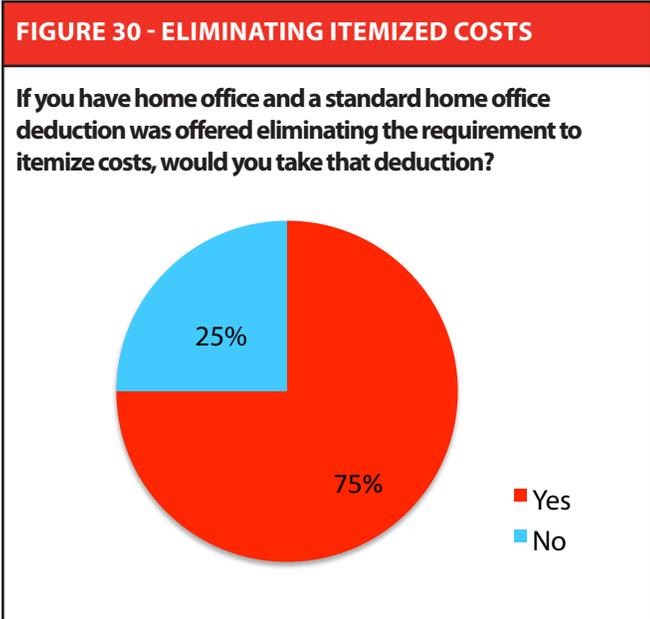


**FIGURE 29 - REASON FOR NOT TAKING HOME OFFICE DEDUCTION**

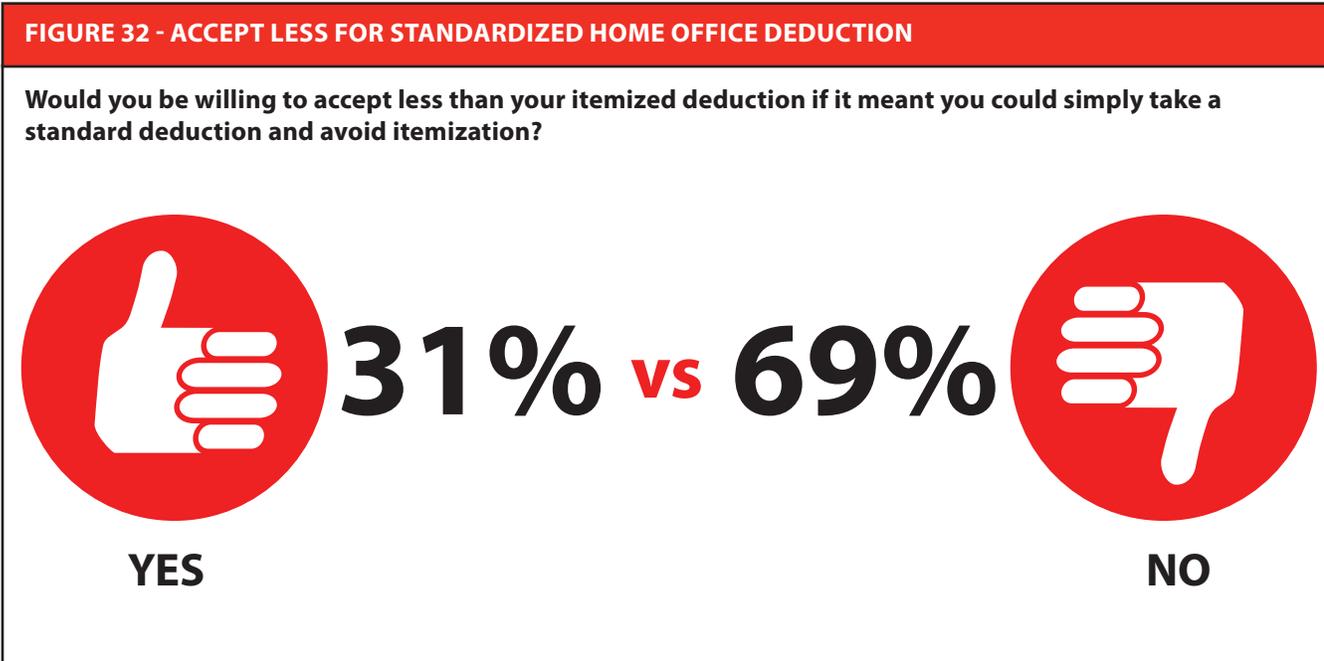
If you have a home office but don't take the home office deduction, why not?



“The biggest reason small businesses aren’t taking advantage of the home office deduction is concern that it will red-flag their return for an audit. [Todd McCracken, NSBA president](#)”



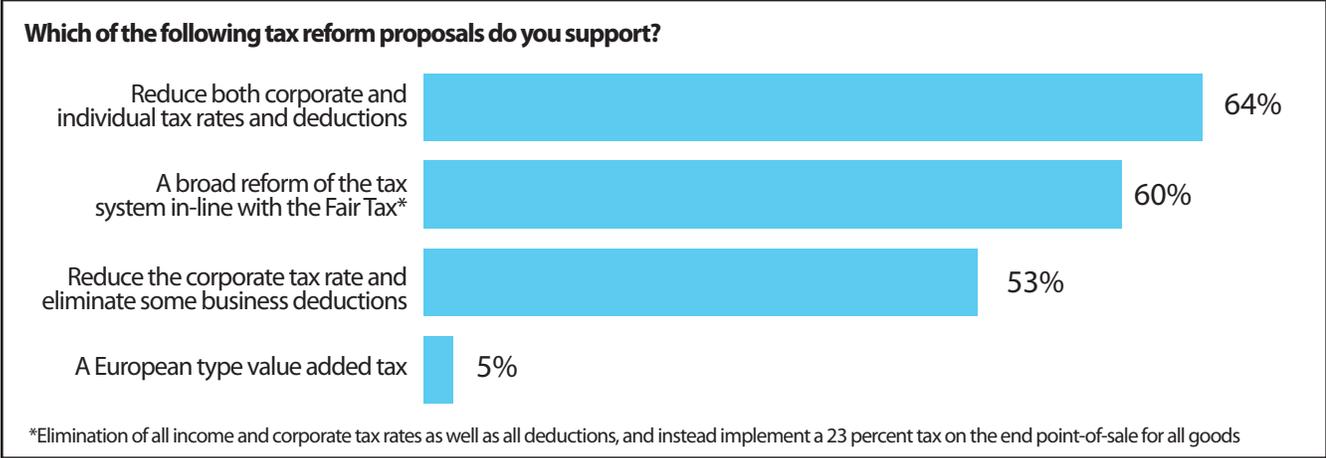
When asked to assign an acceptable dollar amount to a standardized deduction, 50 percent would said they would accept anywhere between \$1,000 and \$2,000 and 33 percent said they would not accept anything lower than \$2,000.



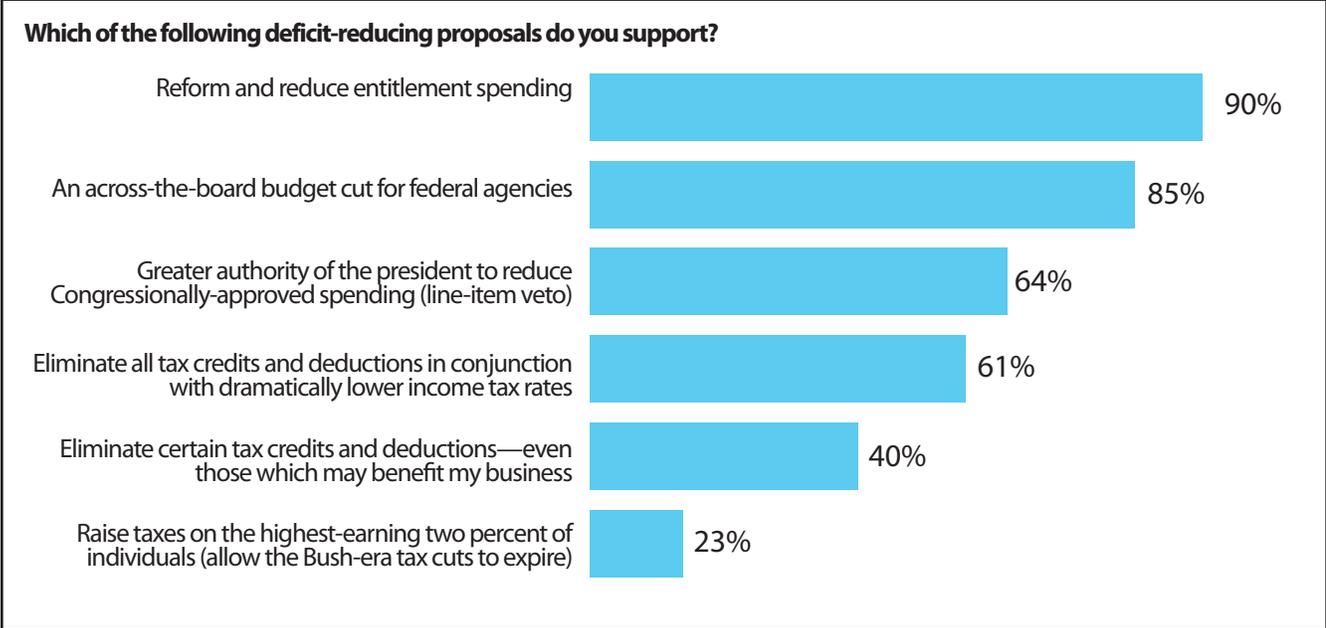


**A**s voted on by NSBA's members at the biennial Small Business Congress, tax reform is one of **NSBA's top ten priorities**. The current tax code is comprised of more than 10,000 pages of laws and regulations that serve as a disadvantage to small businesses, and are egregiously complex and constantly in flux. NSBA's members believe it is imperative that the U.S. move toward a simpler, fairer tax system that is: designed to tax only once; stable and predictable; visible to the taxpayer; simple in its administration and compliance; comprehensible using commonly understood finance/accounting concepts; and fair in its treatment of all citizens.

**FIGURE 33 - SUPPORT FOR TAX REFORM PROPOSALS**



**FIGURE 34 - SUPPORT FOR DEFICIT REDUCTION PROPOSALS**



“Underscoring the fact that the overwhelming majority of small businesses are pass-through entities, most respondents favor a reduction in corporate and individual tax rates coupled with a reduction in business and individual deductions as sound tax reform policy. - [Todd McCracken, NSBA president](#)”

# METHODOLOGY

The 2011 Small Business Taxation Survey was conducted on-line March 15 – March 28 among more than 300 small-business members of NSBA representing every industry in every state in the nation. While the results in this survey can be extrapolated to the at-large small-business community, it is worth mentioning that NSBA members tend to be older, more well-established small businesses.

