With just days until the April 17 income tax deadline, federal taxes are weighing heavily on America’s small-business community. Federal taxes are routinely ranked among the top issues facing small businesses and pose a huge financial and administrative 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 2012 Small Business Taxation Survey.

Celebrating its 75th anniversary, 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. The 2012 Small Business Taxation Survey is a follow-up of a similar survey in 2011 and will provide valuable trending data.

Small business consistently ranks 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, along with the mountains of paperwork that necessitates, is actually a more significant problem for America’s small businesses. In 2012, 64 percent of small businesses reported they spend more than 40 hours per year dealing with federal taxes, up from 57 percent just one year ago. Forty-five percent report spending more than 80 hours per year—two full weeks—just on dealing with federal taxes.

Underscoring the growing complexity with the U.S. tax code is the fact that 85 percent of small-business owners must pay an external tax practitioner or accountant to handle their taxes. Furthermore, when asked to rate the most significant challenge posed by the federal tax code to their business, the majority (56 percent) picked administrative burdens while 44 percent said financial burdens.

A likely result of ongoing economic difficulties, fewer companies today are using payroll service companies, down from 44 percent to 41 percent. However, those that do are paying more: —36 percent of small businesses spend in excess of $500 per month on payroll services, up from 28 percent just a year ago.

When it comes to public policy, the clear majority of small businesses (73 percent) support broad tax reform that will reduce both corporate and individual tax rates coupled with reduced deductions. Given that the overwhelming majority of small businesses (83 percent, according to existing NSBA data) pay taxes on their business at the personal income level, or are so-called “pass-through” entities, addressing just one piece of the puzzle—such as corporate tax reform—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.

Touching again on the ever-changing maze of tax credits and laws, small businesses expressed the greatest concern over a pending increase in the marginal income tax rates; massive increases in the estate tax; prohibiting self-employed from fully deducting the cost of their health insurance; and expiration of the expanded Section 179 expensing and bonus depreciation.

We hope this survey provides timely and useful information on how taxes are impacting America’s small-business community.

Sincerely,

Chris Holman,
NSBA Chair
Michigan Business Network

Todd O. McCracken
NSBA President and CEO
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 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.
Complexity of the tax code continues to pose significant challenges to small business. The tax burden on America’s small-business owners is growing with 64 percent reporting they spend more than 40 hours per year dealing with federal taxes, up from 57 percent just one year ago. The financial burden also is growing with a slight increase in the number of small businesses spending in excess of $5,000 annually on the administration (i.e.: accountant fees or internal costs) of federal taxes alone.

The time and money spent, coupled with the fact 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.

When asked to rate the most significant challenge to their business, the majority (56 percent) picked administrative burdens while 44 percent said financial burdens. These administrative burdens are usurping more and more of the small-business owner’s time and directly correlates to increased spending simply to pay ones taxes.

Interestingly, the financial and administrative burden small-businesses feel is nearly identical for various taxes. When asked to rate a series of 11 common small-business taxes both in terms of financial and administrative burden, payroll taxes, state and local taxes, property taxes, sales tax and income taxes rounded out the top five.

Nearly one in three small-business owners spend more than three weeks dealing with federal taxes—up five percentage points from just one year ago.”—Chris Holman, NSBA Chair and CEO of Michigan Business Network.
Please rank, in order of their administrative burden on you and your business, the following taxes.
1. Income Taxes (Both C-Corps and Pass-Through Entities)
2. Payroll taxes
3. Sales tax
4. State and local tax compliance
5. Property taxes
6. Alternative Minimum Tax
7. Capital gains taxes
8. Import taxes (I import)
9. Excise taxes
10. Estate tax
11. International taxes (I export)

Please rank, in order of their financial burden on you and your business, the following taxes.
1. Payroll taxes
2. Income Taxes (Both C-Corps and Pass-Through Entities)
3. Property taxes
4. State and local tax compliance
5. Sales tax
6. Alternative Minimum Tax
7. Estate tax
8. Capital gains taxes
9. Excise taxes
10. Import taxes (I import)
11. International taxes (I export)

What is the largest burden posed to you by the federal tax code?
- Financial cost to my business: 44%
- The lack of consistency/continuously changing regulations: 15%
- Administration of tax forms and the time it takes: 13%
- Complexity and the concern over getting audited: 11%
- Amount of paperwork that must be completed: 10%
- Inequity within the Code: 7%

Administrative Burden: 56%
Financial Burden: 44%
There was a decrease in the take-up rate of nearly every common small-business deduction between 2011 and 2012, likely due to actual sunsets or confusion over last-minute changes to various sunset dates. Although tax law and credits or deductions do have a significant impact on a notable number of businesses, many NSBA members have commented that the complexity, continually changing and temporary nature of many credits and deductions have diminished their importance.
Do you have inventory for your business?

- Yes: 43%
- No: 57%

Which method of accounting does your business utilize?

- Accrual: 38%
- Cash: 62%

Among those that do have inventory, methods is used to determine inventory cost.

- First-in, First-out (FIFO): 32%
- Specific Identification Method: 30%
- Last-in, First-out (LIFO): 21%
- Not Sure: 17%
Although it appears there still is a significant number of small businesses who are not aware of the 2012 requirement that all health insurance spending must be reported on employees’ W2 forms, one in five said the requirement will consume a significant amount of staff time or result in a significant increase in their payroll provider’s fees.

**FIGURE 19 - SELF EMPLOYMENT TAX DEDUCTION**

Did you utilize the one-year provision enabling self-employed individuals to fully deduct the cost of their health insurance for 2010, thereby foregoing the self-employment taxes that are otherwise assessed on health insurance premiums?

- **25%** Yes
- **13%** No - I do pay self-employment taxes
- **38%** No - I don’t pay self-employment taxes
- **06%** I wasn’t aware of it
- **19%** Not Sure

**FIGURE 20 - AVERAGE SAVINGS FROM SELF-EMPLOYMENT TAX**

Approximately how much money did the 2010 exemption of self-employment taxes on the cost of your health insurance save your company?

- **$3,130**

**FIGURE 21 - SPENDING SAVINGS**

What did you do or plan to do with this extra money?

- **Save or reinvest it back into the company** 48%
- **Other** 20%
- **Buy new equipment** 13%
- **Reduce employees’ portion of the health insurance plan** 8%
- **Grow inventory** 8%
- **Increase advertising** 7%
- **Reduce my (the employer) share of our health insurance plan** 5%
- **Hire more employees** 2%

**FIGURE 22 - AWARENESS OF W2 REQUIREMENT**

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?

- **40%** Yes
- **60%** No

**FIGURE 23 - IMPACT OF W2 REQUIREMENT**

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

- **It will cost me or my staff a significant amount of time** 14%
- **It will cost me or my staff a moderate amount of time** 31%
- **It will increase my payroll provider's cost significantly** 6%
- **It will increase my payroll provider's cost somewhat** 20%
- **No Impact** 15%
- **Not sure** 23%
While fewer companies report using payroll service companies like ADP or Paychex (down from 44 percent to 41 percent), those that do are paying more. More than one-third of 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 and is an increase from one-in four just a year ago.

The time commitment also is significant with 33 percent of small-business owners spending more than six hours per month handling payroll which amounts to more than 72 hours per year, or nearly two weeks.
Given the relatively higher proportion of professional services and manufacturing businesses among the respondents of the survey, it is not unusual that such a high proportion don’t collect sales taxes.” - Todd McCracken, NSBA President & CEO

<table>
<thead>
<tr>
<th>FIGURE 29 - TIME SPENT ON ADMINISTRATION OF SALES TAX</th>
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<tbody>
<tr>
<td>Approximately how much time do you spend on the administration of sales taxes?</td>
</tr>
<tr>
<td><img src="clocks.png" alt="Clocks" /></td>
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<tr>
<td>41%</td>
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<tr>
<td>No time - I don’t collect sales tax</td>
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<tr>
<th>FIGURE 30 - TIME SPENT ON ESTATE TAX PLANNING</th>
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<tbody>
<tr>
<td>In the last three years, how much time have you spent on estate tax planning?</td>
</tr>
<tr>
<td><img src="clocks.png" alt="Clocks" /></td>
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<tr>
<td>34%</td>
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<tr>
<td>None</td>
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</tbody>
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<tr>
<th>FIGURE 31 - MONEY SPENT ON ESTATE TAX PLANNING</th>
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<tbody>
<tr>
<td>In the last three years, how much money have you spent on estate tax planning?</td>
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<tr>
<td><img src="coins.png" alt="Coin Stack" /></td>
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<tr>
<td>44%</td>
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<tr>
<td>None</td>
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As 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.

Addressing just one piece of the puzzle—such as corporate tax reform—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.

Furthermore, small businesses strongly support implementing broad tax reform to create economic growth and generate federal revenues as a sound way of addressing the growing national deficit.

Given the majority of small businesses are pass-through entities, there is overwhelming support for tax reform that would reduce both corporate and individual tax rates coupled with a reduction in business and individual deductions. - Chris Holman, NSBA Chair
Touching again on the ever-changing maze of tax credits and laws, small businesses expressed the greatest concern over the following tax changes, many of which either already have taken place or will in 2013 unless Congress acts: an increase in the marginal income tax rates; estate tax exemption drops and the tax increases; self-employed no longer can fully deduct the cost of their health insurance; and expiration of the expanded Section 179 expensing and bonus depreciation.

The overwhelming majority of small-business owners support broad reform of the federal tax code—not tinkering with certain taxes here and there. While certain credits and deductions can be very helpful, the ever-changing tax landscape is a roller coaster ride without the slightest indication of what’s around the next corner. Lawmakers must work toward broad reform, and they must do it now.” - Todd McCracken, NSBA President & CEO

### FIGURE 34 - IMPACT OF RECENT AND PENDING TAX CHANGES

<table>
<thead>
<tr>
<th>Percentage of owners who said the tax change would have a moderate to significant impact on their small business.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marginal income tax rates increase in 2013 (expiration of Bush tax cuts)</td>
</tr>
<tr>
<td>Estate tax exemption reduced from $5 million and top rate of 35% to $1 million and a top rate of 55%</td>
</tr>
<tr>
<td>Self-employed no longer able to fully deduct cost of health care in 2011 and 2012</td>
</tr>
<tr>
<td>Sec. 179 Expensing reduced to $125,000 from $500,000 in 2011</td>
</tr>
<tr>
<td>Bonus depreciation reduced to 50% in 2012</td>
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<tr>
<td>AMT exemption amount reduced</td>
</tr>
<tr>
<td>R&amp;E (also called R&amp;D) tax credit no longer available in 2012</td>
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</tbody>
</table>
METHODOLOGY

The 2012 Small Business Taxation Survey was conducted on-line March 14 – March 28 among 350 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, and there is a higher concentration of C-Corps in this survey than what is traditionally found in the at-large small-business community in the U.S.