2013 SMALL BUSINESS TAXATION SURVEY
With just days until the April 15 income tax deadline, America’s small-business community is particularly focused on the burdens imposed by the federal tax code. Federal taxes are routinely ranked among the top issues facing small businesses and pose a huge and unique 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 in this document, the NSBA 2013 Small Business Taxation Survey.

Celebrating more than 75 years as the nation’s first small-business advocacy organization, part of NSBA’s mission is to address the needs and represent the concerns of the small-business community. A staunchly nonpartisan organization, NSBA conducts a series of surveys throughout the year, including our semiannual Economic Reports. The 2013 Small Business Taxation Survey provides a snapshot of how federal taxes are impacting small businesses today.

According to NSBA’s Economic Reports, reducing the tax burden is among small businesses’ 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 it necessitates, is actually a more significant problem for America’s small businesses. In 2013, 38 percent of small businesses reported they spent more than 80 hours per year dealing with federal taxes—that’s two full work weeks spent just on federal taxes. The majority spend more than 40 hours per year, just imagine the collective business and job growth that could be done absent that burden.

Underscoring the growing complexity with the U.S. tax code is the fact that 84 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 (55 percent) picked administrative burdens while 45 percent said financial burdens.

The majority of small businesses say that federal taxes and credits/deductions have a significant to moderate impact on their business decisions. However, many NSBA members have commented that the complexity, continually changing and temporary nature of many credits and deductions are diminishing their importance.

When it comes to payroll taxes, one-third of small businesses report spending more than six hours per month on the administration of payroll taxes, which, while it may not sound overly burdensome, amounts to more than 72 hours per year, or nearly two full work weeks. With regards to sales taxes, 27 percent report spending three hours or more per month which amounts to nearly one full work week per year.

Turning to public policy, the clear majority of small businesses (66 percent) support broad tax reform that will reduce both corporate and individual tax rates coupled with reduced deductions. With regards to reducing the deficit, 82 percent of small businesses support deficit reduction through tax reform that creates economic growth and generates federal revenues. 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.

The U.S. Tax Code poses a significant disadvantage to America’s small businesses, and it punishes work, investment, risk-taking and entrepreneurship. As such, NSBA has embraced nine principles that any responsible tax reform package ought to incorporate, which are included at the end of this survey packet.

The results of this survey are clear proof that our current system is unsustainable.

Conducted on-line among more than 1,500 small business owners March 27-April 9, we hope this survey provides timely and useful information on how taxes are impacting America’s small-business community.

Sincerely,

David Ickert
NSBA Chair
Air Tractor, Inc.

Todd McCracken
NSBA President and CEO

FOREWORD

With just days until the April 15 income tax deadline, America’s small-business community is particularly focused on the burdens imposed by the federal tax code. Federal taxes are routinely ranked among the top issues facing small businesses and pose a huge and unique 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 in this document, the NSBA 2013 Small Business Taxation Survey.

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DEMOGRAPHICS

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

- 0: 6%
- 1 to 5: 37%
- 6 to 19: 15%
- 20 to 99: 16%
- 100 to 499: 21%
- 500+: 4%

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

- C-Corp: 24%
- S-Corp: 44%
- Sole Proprietorship: 12%
- Partnership: 1%
- LLC: 19%

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

- Less than $100,000: 14%
- $100,000 - $250,000: 11%
- $250,001 - $500,000: 12%
- $500,001 - $1 Million: 12%
- $1 - $5 Million: 30%
- $5 - $25 Million: 17%
- $25 - $75 Million: 3%
- More than $75 Million: 1%

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

- Professional services: 27%
- Manufacturing: 17%
- Construction: 15%
- Retail: 8%
- Distribution: 6%
- IT/Telecom: 6%
- Software: 4%
- Transportation: 4%
- Health Care: 3%
- Real estate: 3%
- Fabricated Products: 2%
- Biotech: 2%
- Printing and Publishing: 1%
- Food Service: 1%
- Insurance: 1%
- Chemicals: 1%
- Finance: 1%

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.
Complexity of the tax code remains a significant challenge to small business with the majority saying they spend more than 40 hours per year dealing with federal taxes. More than one-in-three report spending in excess of 80 hours—two full work weeks—per year on federal taxes. Nearly half of small businesses spend $5,000 or more annually the administration (i.e.: accountant fees) of federal taxes alone. This is before they even pay their actual taxes!

The time and money spent, coupled with the fact 84 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 posed by federal taxes, the majority (55 percent) picked administrative burdens while 45 percent said financial burdens.

Interestingly, the financial and administrative burden small-businesses feel is nearly identical for the most common small-business taxes. When asked to rate a series of 12 common small-business taxes, income taxes (where the majority of small businesses pay taxes on business income as pass-through entities), payroll taxes, corporate taxes and state and local taxes rounded out the top four most burdensome taxes both financially and administratively.
Please rank, in order of their ADMINISTRATIVE burden on you and your business, the following taxes.

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

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

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

Interestingly, the financial and administrative burden small-businesses feel is nearly identical for the most common small-business taxes.

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

- Financial cost to my business: 45%
- Administration of tax forms and the time it takes: 14%
- Complexity and the concern over getting audited: 13%
- The lack of consistency/continuously changing regulations: 12%
- Amount of paperwork that must be completed: 8%
- Inequity within the Code: 7%

Cumulative burden by type imposed on small business by the Federal Tax Code

- Administrative Burden: 55%
- Financial Burden: 45%
TAX DEDUCTIONS AND CREDITS

There was a decrease in the take-up rate of nearly every common small-business deduction between 2012 and 2013, likely due to confusion over last-minute changes to various tax provisions which weren’t addressed until the very last minute through the Fiscal Cliff Deal. The majority of small businesses say that federal taxes and credits or deductions have a significant to moderate impact on their business decisions. However, many NSBA members have commented that the complexity, continually changing and temporary nature of many credits and deductions are diminishing their importance.

Which of the following deductions or credits do you take advantage of?

<table>
<thead>
<tr>
<th>Deduction or Credit</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home mortgage interest deduction</td>
<td>35%</td>
<td>36%</td>
</tr>
<tr>
<td>Sec. 179 expensing</td>
<td>30%</td>
<td>36%</td>
</tr>
<tr>
<td>2010 self-employment tax deduction on health care</td>
<td>23%</td>
<td>25%</td>
</tr>
<tr>
<td>Home office deduction</td>
<td>14%</td>
<td>21%</td>
</tr>
<tr>
<td>Bonus depreciation</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>R&amp;E (Also called R&amp;D) credit</td>
<td>10%</td>
<td>11%</td>
</tr>
<tr>
<td>Energy efficiency credits</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Start-up costs deduction</td>
<td>5%</td>
<td>10%</td>
</tr>
</tbody>
</table>

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

- Significant impact: 34%
- Small impact: 19%
- Moderate impact: 40%
- No impact: 7%

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

- Significantly: 17%
- A Little: 25%
- Moderately: 29%
- Not at all: 29%
Providing flexibility and simplicity to small businesses in which method of accounting they use is important. Cash accounting—widely seen as a more simple, straightforward method of accounting—is utilized by 42 percent of small businesses, and 51 percent report using cash accounting for purposes of filing their taxes.

Which method of accounting does your business utilize?

- Accrual: 48%
- Cash: 42%
- Not Sure: 10%

Which accounting method do you use for reporting your taxes?

- Accrual: 39%
- Cash: 51%
- Not Sure: 11%

Do you have inventory for your business?

- Yes: 52%
- No: 48%

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

- Specific Identification Method: 29%
- First-in, First-out (FIFO): 26%
- Last-in, First-out (LIFO): 11%
- Not Sure: 34%
EMPLOYEES & TAXES

Some of the most complex and burdensome taxes and requirements are related to small-businesses employees. A new requirement for 2012 taxes, all employers now must report on employees’ W2 forms their company’s total health insurance spending for that employee. Thirty-nine percent reported that new requirement had a moderate to significant time and/or cost impact on their business.

When it comes to payroll taxes, 40 percent use an external payroll company and one in three report spending more than $500 per month on payroll services. This amounts to more than $6,000 per year. Even among those businesses who outsource payroll, one-third report spending more than six hours per month on the administration of payroll taxes.

Among those small businesses who handle payroll taxes internally, nearly one in four report spending more than six hours per month.

While six hours per month may not sound overly burdensome, it amounts to more than 72 hours per year, or nearly two full work weeks.

<table>
<thead>
<tr>
<th>Even if you pay an outside payroll company, please estimate the amount of time you spend on the administration of payroll taxes?</th>
</tr>
</thead>
<tbody>
<tr>
<td>No time – I have no employees</td>
</tr>
<tr>
<td>1 to 2 hours per month</td>
</tr>
<tr>
<td>3 to 5 hours per month</td>
</tr>
<tr>
<td>6 to 10 hours per month</td>
</tr>
<tr>
<td>More than 10 hours per month</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Do you use a payroll service like ADP or Paychex to prepare your payroll?</th>
</tr>
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<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>60%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Approximately how much MONEY do you spend per month with the payroll company?</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1 - $50</td>
</tr>
<tr>
<td>$51 - $100</td>
</tr>
<tr>
<td>$101 - $500</td>
</tr>
<tr>
<td>$501 - $1000</td>
</tr>
<tr>
<td>$1001 - $5000</td>
</tr>
<tr>
<td>$5000+</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>If you handle payroll internally, approximately how much time do you spend on the administration of payroll taxes?</th>
</tr>
</thead>
<tbody>
<tr>
<td>No time – I have no employees</td>
</tr>
<tr>
<td>1 to 2 hours per month</td>
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<tr>
<td>3 to 5 hours per month</td>
</tr>
<tr>
<td>6 to 10 hours per month</td>
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<tr>
<td>More than 10 hours per month</td>
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</table>

<table>
<thead>
<tr>
<th>Time Spent on Handling Payroll Internally</th>
</tr>
</thead>
<tbody>
<tr>
<td>23% of small-business owners spend in excess of 6 hours per month on administration of payroll.</td>
</tr>
</tbody>
</table>

If it cost me or my staff a significant amount of time | 11% |
If it cost me or my staff a moderate amount of time | 14% |
If it increased my payroll provider’s cost significantly | 3% |
If it increased my payroll provider’s cost moderately | 11% |
No Impact | 17% |
Not sure | 18% |
I did not have to report this on any W2s | 25% |
Other | 3% |
While nearly half small businesses don’t report collecting sales taxes—likely due to the high proportion of professional services and manufacturing businesses among the respondents—27 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.

### Approximately how much time does your company spend on the administration of sales taxes?

- **47%** No time - I have no employees
- **26%** 1 to 2 hours per month
- **16%** 3 to 5 hours per month
- **7%** 6 to 10 hours per month
- **4%** 10 hours +

### 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? (Check All That Apply)

- Yes, if the states’ sales tax systems were streamlined or simplified - 20%
- Yes, with an exemption for companies with less than $5 million in annual revenue - 8%
- Yes, with an exemption for companies with less than $10 million in annual revenue - 3%
- Yes, with an exemption for companies with less than $30 million in annual revenue - 2%
- Yes, with no exemptions - 8%
- No - 50%
- Not Sure - 16%
As voted on by NSBA’s members at the biennial Small Business Congress, deficit reduction through tax, spending and entitlement reform is NSBA’s number one priority for the 113th Congress.

Given that the majority of small businesses are pass-through entities, there was overwhelming support, 66 percent, for tax reform that would reduce both corporate and individual tax rates coupled with a reduction in business and individual deductions. Because the deficit is inextricably tied to taxation, 82 percent of small businesses support deficit reduction through tax reform that creates economic growth and generates federal revenues. Seventy-nine percent support entitlement reform and reduction.

As NSBA has been warning for quite some time, 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.

<table>
<thead>
<tr>
<th>Please indicate your level of support for each of the following tax reform proposals</th>
<th>SUPPORT</th>
<th>DON’T SUPPORT</th>
<th>NOT SURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce both corporate and individual tax rates, and reduce both business and individual deductions</td>
<td>66%</td>
<td>18%</td>
<td>16%</td>
</tr>
<tr>
<td>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)</td>
<td>47%</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Reduce the corporate tax rate and eliminate some business deductions</td>
<td>46%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>A European type value added tax</td>
<td>10%</td>
<td>54%</td>
<td>37%</td>
</tr>
<tr>
<td>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</td>
<td>16%</td>
<td>53%</td>
<td>31%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Please indicate your level of support for each of the following deficit-reducing proposals do you support?</th>
<th>SUPPORT</th>
<th>DON’T SUPPORT</th>
<th>NOT SURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement tax reform to create economic growth and generate federal revenues.</td>
<td>82%</td>
<td>7%</td>
<td>12%</td>
</tr>
<tr>
<td>Reform and reduce entitlement spending</td>
<td>79%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>An across-the-board budget cut for federal agencies</td>
<td>67%</td>
<td>26%</td>
<td>8%</td>
</tr>
<tr>
<td>Greater authority of the president to reduce Congressionally-approved spending (line-item veto)</td>
<td>52%</td>
<td>63%</td>
<td>12%</td>
</tr>
<tr>
<td>Raise taxes on the highest-earning individuals</td>
<td>35%</td>
<td>56%</td>
<td>9%</td>
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</table>
NSBA’S TAX REFORM PRINCIPLES

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 is urging broad reform of the federal tax code that adheres to the following nine principles.

1. Designed to tax only once
2. Stable and predictable
3. Visible to the taxpayer
4. Simple in its administration and compliance
5. Promote economic growth and fairness between large & small businesses
6. Use commonly understood finance/accounting concepts
7. Grounded in reality-based revenue estimates
8. Fair in its treatment of all citizens
9. Transparent
METHODOLOGY

The 2013 Small Business Taxation Survey was conducted on-line March 27 - April 9 among more than 1,500 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.