



July 14, 2015

The Honorable David Vitter
Chairman
Senate Small Business and Entrepreneurship Committee
United States Senate
516 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Vitter:

On behalf of the National Small Business Association (NSBA), I would like to express our support for the *Small Business Tax Compliance Relief Act*. 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 of NSBA members, 59 percent, have cited administrative burdens, up from 53 percent just one year ago.

Although NSBA's members operate a wide variety of businesses, they all consistently rank reducing the tax burden among their top issues for Congress and the administration to address. The compliance burden on taxpayers, because of the complexity of our code, is truly staggering. While the actual tax liabilities for small firms 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. Small firms tend to be an easy target since, unlike big corporations which have large staffs of accountants, benefits coordinators, attorneys, personnel administrators, etc. at their disposal, small businesses often are at a loss to keep up with, implement, afford, or even understand the overwhelming regulatory and paperwork demands of the federal government and tax code.

According to the NSBA 2015 annual Taxation Survey, one-in-three small-business owners reported spending in excess of 80 hours—two full work weeks—per year dealing with federal taxes and nearly spend \$5,000 or more annually on the administration of federal tax alone. Just imagine the collective business and job growth that could be done absent that burden.

While NSBA welcomes the eagerness of many of your colleagues to fix America's broken tax system, we also recognize there are significant challenges with enacting comprehensive tax reform legislation in the near future. Therefore, in the interim, we commend your efforts to reform the tax system in order to reduce its complexity and compliance costs and to promote economic growth and prosperity. Several of the provisions included in your measure will provide simplification to the most complex provisions of the code and may help to significantly reduce the burden on individual taxpayers and small businesses.

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 and increasing the threshold to \$10 million will provide consistency in defining small business in the tax code.

The de minimis safe harbor allows taxpayers without an applicable financial statement to deduct amounts paid for property if the amount does not exceed \$500 per invoice, or per item as substantiated by the invoice. NSBA supports raising the de minimis capitalization to \$2,500 and applauds your efforts for including “reviewed” financial statements as “applicable financial statements” as this will certainly add to the number of small businesses able to use the limit.

Self-employed individuals (including partners and LLC members), unlike large corporations, cannot fully deduct the cost of their health insurance as a business expense. At issue is the 15.3 percent tax that self-employed individuals must pay on their employer-provided health insurance costs to which nobody else is subjected. While the important 2003 change enabled small-business owners to deduct the cost of health care from their income that income already has been exposed to the payroll tax. Thus, the self-employed effectively pay the self-employment tax on income used to purchase health care.

The self-employed pay an average of \$12,680 per year for health insurance. Because they cannot deduct this as an ordinary business expense, the 15.3 percent payroll tax they alone pay on their premiums amounts to \$1,940 in extra taxes that only the self-employed pay. This is money that could be used to reinvest and grow the business, hire part-time help or cover the ever-increasing costs of health insurance. This additional 15.3 percent tax makes already disturbingly high-priced health care cost even more by adding thousands of dollars to the cost of an individual’s health care. As long supporters of tax equity for the self-employed, NSBA is pleased to see this essential piece in your legislation for 2015.

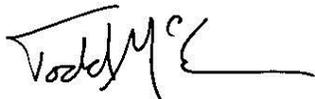
Small businesses have often described how the Internal Revenue Service (IRS) repeatedly ignores small businesses’ unique requirements and simply does not understand the impact that many of their rules have on the operation of a small business. By requiring the IRS to convene small business review panels, we may begin to see better IRS rules which are easier to understand, implement and enforce, and which may draw a more positive reaction from smaller entities. By extending the Small Business Regulatory Enhancement Flexibility Act (SBREFA) panel process to the IRS, your legislation will help small businesses deal with one of the more troublesome and burdensome federal agencies, by requiring the IRS to fully consider the impact of their regulations on small businesses.

Time and again, we hear from small businesses about their desire to have a more simplified approach to complying with federal regulations and their paperwork requirements. The complexity of ambiguous terms, intricate technical language and difficult sentences causes them to have trouble understanding the requirements. NSBA is pleased to see your requirement for the IRS to produce a report that calls for simplification, streamlined definitions and plain-language.

NSBA strongly believes that the current tax system is irretrievably broken and constitutes a major impediment to the economic health and international competitiveness of American businesses of all sizes, with widespread competitive disadvantages to small firms. To promote economic growth, job creation, capital formation, and international competitiveness, fundamental tax reform is required. However, unless and until Congress agrees upon a replacement, we must fix tax problems with the current tax code by developing simplification measures that are fair and fiscally responsible.

Your legislation is a step closer to enabling businesses to invest in new equipment, hire more workers and dedicate more money to savings and investment, which in turn will help strengthen our economy. NSBA supports the *Small Business Tax Compliance Relief Act*, and commends you for working to bring this legislation to the Senate floor.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd McCracken". The signature is stylized and includes a long horizontal flourish at the end.

Todd McCracken
President & CEO