



## **Tax Day 2012**

# **Uncertainty Continues to Plague Small Business**

*Tax day is a reminder that small businesses face complexity and uncertainty in the federal tax code year-round. In a survey of small businesses ranking 75 issues of concern for small businesses, federal tax issues occupy two of the top five items on the list.<sup>1</sup> The top individual tax rates are set to increase soon and many of the most popular tax breaks, so-called tax extenders, are in a state of constant flux.*

*Here is a list of facts and issues illustrating the tax problem facing small businesses.*

### **1. Tax uncertainty is a leading impediment to small-business growth**

- According to the April 2012 Small Business Economic Trends report, 20 percent of small business cited taxes as the single most important problem facing them today.<sup>2</sup>
- A recent NFIB poll shows uncertainty is the second most important current external impediment to small-business growth; 22 percent of small-business owners said it is the single most important external impediment to growth.<sup>3</sup>
- In member balloting, NFIB members overwhelmingly support extending the 2001 and 2003 tax rates.<sup>4</sup>

### **2. Frequent changes to the tax code increase complexity and uncertainty**

- Congress continues to make changes to the tax code each year, and there is year-to-year uncertainty today over individual tax rates which affect most small businesses.
- Regular changes to the tax code lead most small business owners to hire accountants – 88 percent of small business owners rely on a paid accountant to prepare their taxes.<sup>5</sup>
- Constant changes to the tax code hinder long term planning and create uncertainty which prevents small businesses from making investments.

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<sup>1</sup> [Small Business Problems and Priorities](#), NFIB Research Foundation, 2008

<sup>2</sup> [Small Business Economic Trends – April](#), NFIB Research Foundation, 2012

<sup>3</sup> [Growth – External Impediments](#), NFIB Research Foundation, 2011

<sup>4</sup> NFIB Member Ballot, 2009 - 2011

<sup>5</sup> [Tax Complexity and the IRS – NFIB Small Business Poll](#), NFIB Research Foundation, 2006

### 3. **Tax compliance costs are a drain on small businesses**

- Small businesses spend on average \$74 per hour to comply with the federal tax code – the most expensive paperwork burden imposed on small businesses by the federal government.<sup>6</sup>
- Research by the SBA Office of Advocacy estimates it costs small businesses 206 percent more to comply with the tax code than it costs their larger counterparts.<sup>7</sup>
- Small businesses spend between 1.7 billion and 1.8 billion hours on tax compliance with a total estimated cost of between \$15 billion and \$16 billion annually.
- The U.S. tax code should be simplified to reduce compliance and accounting costs for small businesses.

### 4. **Raising individual tax rates is a tax increase on small businesses**

- NFIB research shows over 75 percent are organized as S-Corps., LLCs, LLPs, or Sole Proprietorships, also known as “pass-through” businesses.<sup>8</sup>
- Over 54 percent of the private sector workforce is employed by pass-through businesses.<sup>9</sup>
- Raising individual rates directly impacts small businesses’ ability to re-invest in their firm and hire or retain employees.

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<sup>6</sup> [Paperwork and Recordkeeping](#), NFIB Research Foundation, 2003

<sup>7</sup> [The Impact of Regulatory Costs on Small Firms](#), SBA Office of Advocacy, 2010

<sup>8</sup> [Tax Complexity and the IRS](#), NFIB Research Foundation, 2006

<sup>9</sup> [The Flow-Through Business Sector and Tax Reform](#), The S-Corp Association, 2011