# Contents

NFIB members think that Congress should fundamentally revise the federal tax code in the next year (2013). Fifty-five (55) percent *strongly* favor fundamental change in 2013 and another 30 percent simply favor it (85% in total). Just 6 percent oppose fundamental change in the next 12 months. The remainder either are undecided or did not respond. The population therefore not only supports change, but finds some urgency to the matter.

NFIB member views on the need to restructure the tax code are predictable; tax reform is always popular.[1] The critical issue is the nature of change. Any fundamental change to the tax code has, and will likely continue to be, a balance between the desire to achieve a more rational code and self-interest, that is, in keeping personal taxes as low as possible. Thus, restructuring the tax code is difficult under the best of circumstances. Yet, NFIB members think that fundamental tax change should be part of a larger effort to bring the federal budget deficit under control; they think of the two as inextricably linked. Sixty-two (62) percent see fundamental tax reform as part of an overall deficit reduction effort, 42 percent strongly so. Twenty-nine (29) percent disagree, 14 percent strongly. The latter group thinks the two should be addressed separately.

Readers should note before proceeding that the overwhelming majority of small-business owners pay taxes on their business income as "pass-throughs," not as the more traditional C-corporation (and then again as an individual). Twenty-one (21) percent of NFIB members own C-corporations with the remainder owning pass-throughs, that is, proprietorships, partnerships, S-corporations, or limited liability corporations. The most common pass-throughs are S-corporations owned by 45 percent of respondents.

The following pages report on the nature of tax code changes that NFIB members prefer and related matters.

*Issues in the Current Federal Tax Code*

NFIB members identify multiple issues as their major sources of complaint with the existing code. For example, the survey presented respondents seven potential problems with the current federal tax code and asked them to identify which were the TWO most troublesome aspects. Their answers appear on Table 1 below. The most frequent complaint is that the deductions, deferrals, credits, and exclusions in the code are inconsistent, arbitrary, and politically-motivated. In other words, the current system of tax preferences makes no sense. Forty-eight (48) percent exercised one of their two allowable choices on that aspect of the code.

The second most frequently identified aspect (by 42%) was constant change. While there is something anomalous in demanding change and then complaining that change occurs too frequently, the basic issue is likely predictability, certainty, and knowing in advance the rules under which they will be playing. The tax uncertainty that has been endemic over the past several years is only the most egregious in a very long list of tax-uncertain moments. That situation likely caused respondents to identify the "change problem" more often than they would have during more normal economic times.

Thirty-six (36) percent chose complexity. Complexity arises at several points later in the text. However, it should be noted here that small-business owners typically do not personally do their taxes; they pay others do it for them. Complexity is therefore principally an after-the-fact business expense that effectively dilutes the behavioral incentives built into the code. Thirty (30) percent complain that rates are too high. NFIB members historically often conflate the amount of tax paid with the structure of the tax code. This is just the first example in the current survey.

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[1] The terms used throughout the remainder of the text are "change," "revision," and "restructuring" of the tax code. The term "reform" is not used because it is interpreted differently by different people.

Another 17 percent of respondents report that taxes adversely influence business decisions. Sixteen (16) percent say tax rates are too progressive. As written comments indicate, a number of respondents are proponents of the flat tax and/or the fair tax. Finally, 7 percent complain that the current code does not raise enough revenue. One important tax principle is adequacy, that is, the tax system should produce adequate revenues to pay for expenditures made. A correlation appears between members directly worried about adequacy and those willing to cut the federal deficit relying on a modestly higher percentage of revenues than others. The remainder typically provided only one of their two possible answers.

Table 1 presents NFIB member views on the worst aspects of the current tax code by the legal form of the businesses they own. Seventy-seven (77) percent of respondents are pass-through entities, 21 percent C-corporations, and 2 percent unknown. The table shows few differences in the views of these two types of owners on the primary shortcomings of the current tax code. This will be a recurrent theme throughout the remainder of these pages. Legal form of business is not associated with NFIB member evaluations of tax issues.

Table 1
Worst Aspects of the Current Tax Code by Legal Form of Business*

| Aspects | Proprietor-ships | Partner-ships | S-Corps | C-Corps | LLCs | Total[†] |
|---|---|---|---|---|---|---|
| Constant Change[a] | 50.0% | *i* | 37.3% | 43.7% | 44.6% | 41.6% |
| Rates Too Progressive[b] | 10.2 | *i* | 16.9 | 16.9 | 17.3 | 15.7 |
| Arbitrary/Inconsistent Preferences[c] | 46.3 | *i* | 46.2 | 52.8 | 45.3 | 47.5 |
| Doesn't Raise Enough Money[d] | 6.5 | *i* | 7.5 | 6.3 | 5.0 | 6.8 |
| Tax Rates Too High[e] | 30.1 | *i* | 29.8 | 27.2 | 29.5 | 29.5 |
| Complexity[f] | 31.0 | *i* | 38.5 | 34.6 | 39.6 | 36.1 |
| Taxes Affect Business Decisions[g] | 19.0 | *i* | 16.1 | 14.6 | 18.0 | 16.9 |
| Other | 2.3 | *i* | 2.1 | 1.2 | -- | 1.7 |
| N/A[‡] | 4.6 | *i* | 5.6 | 2.7 | 0.7 | 4.2 |
| Total | 200.0% | 200.0% | 200.0% | 200.0% | 200.0% | 200.0% |
| N | 216 | 37 | 533 | 254 | 139 | 1198 |

*Respondents could make two choices.
[†] Includes partnerships and those who did not identify a legal form.
*i* Insufficient number of cases to report totals.
[a] Constant change makes planning and compliance difficult.
[b] Rates are too progressive (too much difference between low tax brackets and high ones).
[c] Deductions, deferrals, credits, and exclusions are inconsistent, arbitrary, and politically-motivated.
[d] Doesn't raise enough revenue to pay for government costs.
[e] Tax rates are too high.
[f] Complexity raises compliance costs and muddles possible tax incentives.
[g] Tax considerations unnecessarily affect business decisions.
[‡] Includes those who made only one selection.

A second aspect of NFIB member views on the tax code are specific items that they would like to see addressed in a fundamental tax revision. Their highest priorities among those tax items of particular small business interest include a reduction in complexity (52%), repeal of the estate and gift tax (45%), full expensing (25%), no net tax increase (25%), repeal of the AMT (Alternative Minimum Tax) (19%), elimination of corporate dividends for C-corporations (12%), and reduction in tax rates (11%).

### a. Complexity

Complexity is an on-going problem. However, small-business owners appear to have thrown up their hands and surrendered to it. When asked what part of the code is the most complex or complicated for them and their business, the majority (52%) report that they let their tax professional worry about complexity; they will pay for the help they need. This survey's results show that the largest consequence of complexity is the additional business expenses associated with hiring tax professionals and related costs. Those who do cite a specific part of the code agree on little. For example, 12 percent identify depreciation, 9 percent capital gains, 7 percent AMT, 5 percent inventory accounting rules, 4 percent passive income, 4 percent pension rules, and 4 percent quarterly filings. Two percent volunteer something else and 2 percent did not respond. Tax simplification for small businesses will require a comprehensive review of the contribution made by various code provisions to complexity; there is no simple, single fix. True simplification of the current code for small businesses, if possible, requires substantial change in many relevant code provisions.

NFIB members are not optimistic that complexity can/will be reduced. Fifty-five (55) percent do not think it will happen, regardless of intent to do so. Thirty-three (33) percent disagree. The remainder have no opinion. This tally suggests a certain cynicism over the likelihood that simplification can or will occur. The survey did not solicit whether that cynicism is bound to the difficulty of actually doing so, experience, or that a priority will ever be assigned to the task.

A simpler tax code equates to administrative cost savings for taxpayers. One reasonable measure of tax simplification therefore is whether small-business owners pay less for professional tax preparation. Another is a reduction in internal administrative expenses on tax matters, an outcome often difficult to measure. So, would NFIB members be willing to exchange minor tax increases for savings from tax simplification? The answer is "no". Sixty-three (63) percent would accept no tax increase as compensation for a simpler income tax system, though 14 percent would not complain about a one percent increase, 6 percent a two percent increase, and 2 percent a five percent increase. Twelve (12) percent have no opinion and 3 percent did not answer. Since the trade probably represents a good financial deal for business owners, why are they unwilling to take it, at least in concept? A possible explanation is their suspicion that the code will never be less complicated. More likely, they think that they should not have to pay for a less complex code; a complicated code should not exist in the first place. Regardless, the results underscore the deep skepticism NFIB members possess over the likelihood of a policy outcome that seems so basic.

### b. Estate and Gift Tax

The immediate economic impact of the estate tax stems from expenditures made today in order to protect assets that could be taxed in the future. Thirty-four (34) percent claim that they have incurred expenses in the last five years, such as financial planning, purchase of insurance they would not have otherwise, etc., in order to protect themselves/their heirs from estate tax liability. Another 15 percent did not make such expenditures in the last five years, but expect to do so in the future. In contrast, 45 percent neither have made any expenditure nor have plans to make any. Another 4 percent explicitly say that do not intend to pass on the business. The survey did not gather the amount or the nature of expenses incurred.

The current size of the NFIB member's business is directly related to his/her propensity to make expenditures in anticipation of the estate and gift tax's demands. Owners of larger, small businesses are more likely to engage in the activity than owners of smaller, small businesses. For example, half of businesses annually grossing $5 million or more made protective expenditures in the last five years and another 16 percent plan to do so in the future; the number who completed their planning and consequently have incurred no recent expenditures is not known. This figure contrasts with the one-quarter annually grossing between $250,000 and $499,999 who have made such expenditures in the last five years, though another 16 percent plan to make them.

There is little reason to think that 34 percent of NFIB members will eventually have estates large enough to require steps necessary to protect themselves from the estate tax. Even if the tax did not apply to estates of $5 million in assets or less, a much smaller number statistically will incur the tax than are planning for it. Possible reasons for the large number of small businesses planning for the estate tax are that some businesses (estates) will not grow large enough to incur a tax; some businesses will disband; some will not have heirs who want to operate the business; etc.[2] However, that is not the point. The point is that individual small-business owners make decisions thinking that they may incur the tax (whether or not they ever do). That means a large portion of them make unnecessary, even wasteful, expenditures on products and services they may never require, depriving the business of investment capital that could more productively be used for other purposes, including business growth.

Uncertainty regarding the estate and gift tax over the last decade has clearly exacerbated the problem. A final determination of the tax's status should considerably reduce unnecessary expenditures to prepare for its demands.

c. Full-Expensing

Expensing is a means of depreciating business assets the same year they are purchased. It has two principal advantages for small businesses: expensing is much easier to calculate than other depreciation methods as it allows eligible assets to be "expensed", that is, deducted for tax purposes in the same year that the assets were purchased (paid). Expensing also accelerates the deduction compared to other depreciation methods thereby initially improving cash flow, though not affecting total taxes paid over an asset's lifetime. Assets eligible for expensing are typically business equipment, business vehicles, off-the-shelf software, etc. Although limited expensing for real property,[3] and its improvements is in place for 2013, it was not eligible for 2012 when the survey was conducted.

With the passage of the *American Taxpayer Relief Act of 2012* retroactive to tax year 2012, Section 179 expensing allows up to $500,000 of eligible assets to be expensed, at which point the Department of Treasury begins to recapture the benefits afforded by the provision. A complete phase-out (recapture) is reached at $2 million. However, these dollar limits are temporary, again illustrating a phenomenon noted earlier. Starting in 2014, the amounts revert to $25,000 and $200,000 respectively.

The majority of NFIB members purchased less than $50,000 of depreciable business assets in the last year, *including* real property and its improvement(s). Thirty (30) percent purchased less than $10,000 in depreciable business assets; 23 percent between $10,000 and $49,999; 12 percent between $50,000 and $99,999; 11 percent between $100,000 and $249,999; 6 percent between $250,000 and

[2] It is also possible, if not likely, that the uncertain outlook over the fate of the estate and gift tax over the last few years, including its threshold and rates, caused small-business owners to seek protection from the tax's consequences more frequently and incur larger expenditures than they would have under more stable conditions.

[3] Under the *American Taxpayer Relief Act of 2012* Pub, L. No. 112-240, up to $250,000 in real property improvements can be deducted under Section 179. The improvements are limited to certain retail, restaurant, and leasehold improvements.

$499,999; 3 percent between $500,000 and $999,999; and 2 percent $1 million and over. Thirteen (13) percent offered no response.

Eighty-two (82) percent of all NFIB members fell under the $500,000 threshold currently in place for 2013. That figure is likely low because of non-respondents (13% of the population). Virtually all of those remaining fell under the $2 million cap, making them eligible for at least a partial benefit. Most NFIB members' needs are therefore satisfied for 2012 and 2013. But, the Section 179 limits change in 2014 and with those changes, the utility of the provision's prior benefits. The 2014 limits mean that only 30 percent will receive the full benefit and another 23 percent (at most) will receive a partial benefit. Moreover, last year, the year for which the investment data were obtained, was not a "normal" year for small business investment.[4] When small business investment recovers and reaches more traditional levels, the 2014 expensing limits will dampen the provision's value more than it otherwise might. The precise number losing eligibility between 2013 and 2014 cannot be determined, but it will lie somewhere between one-half and one-third of the NFIB member population.

Survey results also show the increasingly diminishing small business benefit in raising Section 179 expensing levels above the current $500,000 threshold. Only 6 percent of NFIB members purchased more than $500,000 in depreciable assets in 2012. However, that does not preclude its value to medium-sized firms.

d. AMT

The Alternative Minimum Tax (AMT) is an alternative income tax system that parallels the federal personal income tax. It was designed to ensure that wealthy people who would have no income tax liability under the conventional system would pay at least some income tax. Covering just a handful of taxpayers initially, 4 million pay the AMT (2010), and several million additional taxpayers must calculate the tax even if they do not have to pay it.[5] Thus, the parallel system effectively creates a two-step process for those potentially required to pay the tax. The first calculation determines which tax system is applicable; the second calculates the extra amount of tax that AMT taxpayers owe.

Thirty-six (36) percent of NFIB members report that they had to calculate the AMT for their last tax year. Twenty-eight (28) percent say that they did not and 31 percent could not recall. The large number who did not recall should not be surprising given the overwhelming use of professional tax-preparers. In many cases, professional tax-preparers simply went ahead and made the calculation as part of the tax-preparation process; the taxpayer would have no reason to know whether the tax professional did so unless he had to pay the tax or the calculation was itemized separately on the invoice. The percent who made the calculation (had it made for them) is therefore likely to be higher than just the 36 percent who responded affirmatively.

Seventeen (17) percent say that they paid the AMT last year. That is a rate much higher than for the population as a whole. The reason is that the AMT most commonly hits married taxpayers in the $200,000 to $1 million income category who have "too many" tax deductions. Still, the 17 percent in this sample seems high, not only because of the proportion earning $200,000 or more, but also because only an estimated 54 percent of those earning between $200,000 and $499,999 are subject to the AMT.[6]

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[4] See, *Small Business Economic Trends*, NFIB Research Foundation, monthly. www.nfib.com/ResearchFoundation. The report, for example, shows that in January 2007, 62 percent of NFIB Members make capital expenditures in the prior six months. By December 2012, that number had fallen to 52 percent or about 16 percent lower (in frequency) than six years earlier.

[5] Justin Bryan, "Individual Income Tax Returns, 2010," *Statistics of Income Bulletin*, Fall, 2012, pp. 5-78.

[6] Urban-Brookings Tax Policy Center, Microsimulation Model, as presented in John D. McKinnon, "Millions Face a Hit if Fix for Minimum Tax Fails to Pass, *Wall Street Journal*, updated December 20, 2012.

A number of plausible reasons could explain an over-estimate, including payment in a prior year, but not 2012; payment of substantial tax; confusion between calculation and payment; and, lack of tax-preparer clarity in explaining a return.

*Preferences versus Rates*

Neutrality is generally considered an important tax principle. Yet, legislative bodies commonly use the tax code to promote (encourage) desirable social and/or economic behaviors. The result is a constant tension between tax provisions and proposals primarily designed to raise revenues while minimizing distortions to economic decision-making and those designed to encourage specific economic and/or social behaviors.

NFIB members, at least in the abstract, overwhelmingly favor a code that minimizes tax preferences and maximizes tax neutrality. Seventy-eight (78) percent think the code should have fewer preferences and lower rates, 52 percent strongly; just 3 percent choose the alternative. Eighteen (18) percent offer no opinion. However, a gap frequently exists between abstract principles and tangible outcomes, particularly when those tangible outcomes directly impact the respondent.

Table 2 presents data that examines specific tax preferences that impact many taxpayers, including small-business owners, to determine whether NFIB members would exchange those preferences for their monetary equivalent in lower rates. The latter proviso is critical. While Table 2 makes clear that NFIB members are willing, often eager, to eliminate or cap preferences in favor of lower rates, data sprinkled through this report make it clear that they do not share the same enthusiasm for tax increases under any circumstances. The most emphatic of these is the question indicating that the most important outcome of a fundamental tax restructuring is that their tax bill is no higher than before, a question which is subsequently addressed.

NFIB members evaluate each tax preference presented to them very differently. Huge majorities would trade the equivalent in lower rates for certain significant preferences while they would not for others. Familiarity with a tax preference often appears to shape the outcome. For example, 24 percent indicate that they are uncertain or have insufficient information about the desirability of capping total deductions in exchange for lower rates. The proposal is relatively new to the public, and hence it is likely that many do not fully understand it or have not thought much about it. But for the most part, the outcome for each preference evaluated is related to other factors, the most important likely being self-interest and distaste for the current condition.

a. Mortgage Interest

The survey directed three questions to mortgage interest deductions. The largest margin (net 54% in favor) of the eight preferences examined is capping the mortgage interest deduction on a primary residence at $500,000. Seventy-three (73) percent favor the exchanging the preference for a lower rate while 18 percent oppose it. The support, let alone its size, surprises given that small-business owners are much more likely to own homes than does the general population. Approximately 90 percent of employers own their primary residence.[7] Further, the industry most dominated by small business is

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http://online.wsj.com/article/SB10001424127887324731304578191863373273492.html.

[7] See, *Small Business, Credit Access, and a Lingering Recession*, NFIB Research Foundation, 2012. www.nfib.com/research-foundation/surveys/credit-study-2012. The Federal Reserve's *Survey of Consumer Finances* estimates that 78 percent of the self-employed own a primary residence. The "self-employed" as defined by the Federal Reserve's study is not the same as "employer" defined by the NFIB Research Foundation. However,

construction, though the sector is obviously not confined to home building. Other important industries, such as real estate, are associated with housing values and would also be affected.

An arbitrary cap amount was a necessary part of the mortgage interest question in order to provide respondents living in high-cost and low-cost areas of the country a common understanding of the amount of tax preference that could be lost and to differentiate the proposal from the cap in existing law. The amount of the cap may have been as important to respondents as the cap itself. The result is that broader issue has two parts – principle and cap size.

Table 2
Tax Preferences Eliminated or Capped in Exchange for an Equivalent Amount in Lower Rates

| Tax Preference | Strongly Favor | Favor | Uncertain/ Insuff. Info. | Oppose | Strongly Oppose | Net Favor/ (Oppose) |
|---|---|---|---|---|---|---|
| (E) Municipal Bonds | 15.2% | 32.3% | 20.0% | 21.5% | 8.2% | 18.0% |
| (E) State/Local Taxes | 7.3 | 20.8 | 15.2 | 34.3 | 20.1 | (26.3) |
| (C) Health Insurance Exclusion | 17.5 | 39.1 | 19.5 | 15.6 | 6.2 | 34.8 |
| (C) Total Deductions | 12.4 | 32.9 | 23.9 | 18.6 | 9.1 | 17.6 |
| (E) Production Tax Credit | 27.6 | 35.7 | 17.4 | 12.7 | 4.3 | 46.3 |
| (C) Mortgage Interest *Primary Residence* | 30.6 | 42.0 | 7.0 | 11.8 | 6.5 | 54.3 |
| (E) Mortgage Interest *Second Residence* | 27.7 | 35.5 | 8.1 | 19.4 | 7.5 | 36.3 |
| (E) Interest *Home Equity Loans* | 15.8 | 26.6 | 11.9 | 31.8 | 10.9 | (0.3) |

(E) – eliminate
(C) – cap

The principle of capping the home mortgage deduction proved more influential than the cap's size. Still, the cap's size lay behind the view of many respondents. Fifty-seven (57) percent of those who favored the $500,000 cap on the deduction claim they did so on principle; 35 percent did so because of the cap's size. Six percent offered no opinion and the remainder were undecided. Similar proportions held for those who opposed capping the deduction at $500,000. Fifty-four (54) percent of that group claimed principle and 28 percent cap size. In total, 58 percent of those expressing a view say theirs was based on principle and 32 percent on cap size. Presumably, those influenced by cap size might have their views changed should the cap size be altered. No data were collected that would help estimate the direction and/or the amount of change to the cap necessary for respondents to reconsider their views.

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both show that a disproportionately large share own a primary residence. See, Jesse Bricker, Arthur B. Kennickell, Kevin B.Moore, and John Sabelhaus, Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances, *Federal Reserve Bulletin*, Vol. 98, No. 2, June, 2012. www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf.

The size of mortgage debt outstanding could help determine where the cap size might become a sensitive subject for many respondents. NFIB members are somewhat older than the population of small-business owners and tend also to be somewhat more rural. It is therefore likely that mortgage debt outstanding is somewhat lower for NFIB members than it is across the broader population. Still, the mortgage debt owed by small-business owners is typically not large. The survey asked respondents to estimate the amount of outstanding debt on their home mortgage including first mortgages, second mortgages, and home equity loans. Forty-one (41) percent have no mortgage debt. Seven percent have less than $50,000 outstanding; 11 percent between $50,000 and $99,999; 19 percent between $100,000 and $249,999; 12 percent between $250,000 and $499,999; and, 3 percent $500,000 or more. Thus, it appears that very few owners would be immediately affected as taxpayers. The primary impact would come on construction firms (and related industries, such as real estate sales) building and selling homes where very large mortgages are common.

Industry unexpectedly is not associated with views on the potential exchange. NFIB members in construction and the financial services express no more or less enthusiasm for the trade of a $500,000 cap on the mortgage interest deduction for lower rates than those owning businesses in other industries. Nor does the cap seem to play an extraordinary role. The size of the cap exhibits no more influence among those in the construction industry than others. The author has absolutely no explanation for the result.

A related issue is the tax preference for mortgage interest on a second residence. The survey question posed the elimination of the deduction in exchange for the equivalent amount in lower rates. A net 36 percent approve (63% favor vs. 27% oppose) of the trade. Data from outside this survey indicates that 22 percent of small employers own a second residence (including a time share), though the number holding a mortgage on that property is not known.[8] That number is reasonably similar to the 27 percent opposing elimination, suggesting a measure of self-interest.

NFIB members in the construction industry are less likely to favor the elimination of the interest deduction on second residences than those in other industries. The net difference among the former is 25 percent and among the latter is 37 percent. A majority in construction favor the proposal (53%); 38 percent oppose it. The response difference between capping interest on first residence and eliminating interest on second residences suggests that the size of the cap plays a more important role than acknowledged. Still, the favorable majorities from the construction industry remain curious.[9]

The exception to the general support given to an exchange of the mortgage interest preference for lower rates is interest on home equity loans. The number favoring and opposing the proposal are almost identical, 42 percent favor and 43 percent oppose. The likely reason for the break in pattern on the interest deduction is the number who use (or have used) home equity loans to support their businesses. In 2011, 22 percent of small employers used loans backed by real estate to directly or indirectly finance their business.[10] Interest accrued on loans for business purposes is deductible, whether as a direct business loan or as a home equity loan used for business purposes. Apparently, NFIB members fear that the elimination of the mortgage interest deduction on home equity loans will result in the loss of a frequently used source of credit for business purposes. While that is not necessarily true given that interest on loans used for business purposes is a deductible business expense under most conditions, it is the most plausible explanation for the enormous difference in its outcome compared to the other two mortgage interest deduction questions.

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[8] *Small Business, Credit Access, and a Lingering Recession*, op. cit.

[9] Possible explanations for contractor views include: most contractors work on homes far under the proposed limit and second homes are typically smaller and purchased with a greater percentage of cash.

[10] *Small Business, Credit Access, and a Lingering Recession*, op. cit.

b. State and Local Tax Deduction

NFIB members all pay state and local taxes and often in large amounts. It does not surprise therefore that a net 26 percent oppose eliminating the deduction for state and local taxes. However, deductibility of state and local taxes is considerably more beneficial to small-business owners in high-tax states than in low-tax states for the obvious reasons. That implies one should expect NFIB members in high-tax states to be less supportive of retaining the deduction than those in low tax states.

The Tax Foundation produces a state business tax climate ranking.[11] The author divided the states' rankings into three groups: the 15 states with the most positive rankings; the 20 states with middling rankings; and the 15 states with the most negative rankings. No relationship exists between these rankings and NFIB member desires to trade an elimination of the state and local tax deduction for an equivalent amount in lower rates. If anything, NFIB members of the middling group were least likely to oppose the proposal. Changing the measure of taxes paid to the Tax Foundation's Tax Freedom Day[12] changes the results somewhat. The change shows those in states with the earliest Tax Freedom Days (lowest taxes) are more likely to favor a trade than those in latest Tax Freedom Days (highest taxes). Still, the former oppose it by a 31 percent (for) to 50 percent (against) margin contrasted to the latter's 23 percent (for) and 59 percent (against). The middling group is in the middle.

The AMT does not allow deductions for state and local taxes paid. Even though the state and local taxes paid deduction for the AMT is not the same issue as the deduction on a regular IRS Form 1040, one suspects that those who paid the AMT in their last tax year may be more sensitive to retaining the deduction than others. That is modestly true for those who actually paid the AMT (an 8 percentage point difference), but not for those who simply had it calculated. The upshot is that the status of state and local taxes for the AMT exerts minimal influence over NFIB member views on the deduction more generally.

c. Exclusion of Employer-Provided Health Insurance

Employees can exclude (not count) from income the amount their employer pays for health insurance; employers can deduct their contribution as a business expense. Small-business owners have generally opposed change in the employer-provided health insurance exclusion, though the relevant questions of which the author is aware have not capped the exclusion AND carried a proviso that the revenues generated would be returned in the form of lower rates. Here, for investigative purposes, the exclusion is capped at $5,000 and the revenue neutral proviso included. Under these circumstances, a net 35 percent favor capping the exclusion. Still, just a small majority (57%) supports the trade.

The principle versus the amount issue arises again at this point. And, again the principle appears to be the driving force behind the views held. Fifty-eight (58) percent of those favoring a $5,000 cap on the exclusion report their view is based on principle compared to 23 percent who say that it is the exclusion's size. A hefty 19 percent have no opinion or did not answer. In contrast, 53 percent of those opposed say principle is the reason for their views, while 34 percent of the group say their opposition is primarily influenced by the size of the exclusion. Given prior expressions of views, the lion's share of those influenced by the exclusion's size probably think it is too low. Thus, it is possible that 7 - 8 percent of the population could change their minds toward approval if the exclusion were raised to, say, $7,500. That would raise the total favoring the trade to about two-thirds.

The Patient Protection and Affordable Care Act (PPACA) requires employers to offer employees health insurance if they have 50 or more full-time or full-time equivalent people working for them (83

[11] http://taxfoundation.org/article/2013-state-business-tax-climate-index.
[12] http://taxfoundation.org/article/tax-freedom-day-state-2012

respondents). In addition, eleven percent of respondents employ no one other than themselves and/or other owners; they provide health insurance only for themselves and their families (if at all). Larger, small employers ensnared by PPACA produce virtually the same totals on the capped exclusion as does the remainder of survey respondents. Those without employees offer somewhat less support for the proposal. But that appears offset by the larger proportion of the group that is uncertain or lacks sufficient information to make a determination.

d. Cap on Total Deductions

A recently discussed proposal is to cap the total amount of deductions any taxpayer can take in exchange for lower rates. Politically attractive because it allows legislators to avoid the relative merits (or lack of) for popular preferences and their potent supporters, the idea is to consolidate all deductions, set a cap, and disallow any deductions above that cap regardless of their purpose. The cap could be a percentage of adjusted gross income as used in the question presented to respondents of this survey or it could be a flat number.[13]

NFIB members support the proposal, though it garnered only a net 17 percent favorable rating. Just 45 percent offer a favorable verdict and only 12 percent favor it strongly. One significant caveat is the 24 percent who are uncertain or who have insufficient information to express an opinion. This one-quarter of the population appears open to persuasion, one way or the other.

The amount of the cap was arbitrarily set for the survey question at 15 percent of AGI (adjusted gross income). But the concept appears to be the attractive feature for many who favor it. Two-thirds (67%) say they support the proposal because of the principle while 18 percent of supporters find the cap's size attractive. (The cap is lower than found in many proposals, likely influencing the totals more than in other similar questions.) Those opposed selected the cap relatively more often for their views. Still, 58 percent indicated their negative views were primarily based on principle while 30 percent selected cap size for theirs.

e. Other Preferences

The production tax credit results (net 46 percent favor elimination) can likely be explained by the numerous and very public scandals involving government loan guarantees to various producers of environmentally-friendly energy. While different than the production credit, the negative publicity generated for government subsidies to the industry and the narrow use of the credit earns it an overwhelming thumbs-down from NFIB members. The survey question still carries the proviso that the revenues gained from its elimination are returned in the form of lower tax rates.

The last item on the list of preferences is tax-free municipal bonds. NFIB members on balance would eliminate tax-free municipal bonds, but the margin is only a net 18 percent. The modest margin begs the question why people who are likely to earn relatively little from such bonds are not more willing to eliminate them. The most plausible explanation is that small-business owners are active in their communities. They take indirect advantage of these federal subsidies through public works and local development projects. The community's interest in this case becomes transcendent.

[13] The potential similarities between this proposal and the AMT should not be missed.

f. Capital Gains and Dividends

NFIB members do not consider capital gains or dividends in the same general category as other tax preferences.[14] Part of the explanation could lie in the manner the questions were asked. Questions about other popular tax preferences were posed in terms of all revenues being returned in the form of lower tax rates. The questions on capital gains and dividends were posed without it. Further, the question about dividends told the respondent to assume that double-taxation of corporate income had been eliminated. Still, NFIB members think that both should receive tax preferred treatment, particularly capital gains.

Nineteen (19) percent think capital gains should be treated as ordinary income, 9 percent strongly. Seventy (70) percent disagree, 52 percent strongly. The latter think they should be tax-preferred, though the amount of the preference was not part of the question. They could think that the current treatment is too generous, insufficiently generous, or about right.

NFIB member opinion regarding dividends is less stark. While 53 percent think that dividends should receive favorable tax treatment, 34 percent think they should be treated as ordinary income. Further, the strength of views held is notably less. One might surmise that owners of C-corporations think differently than their colleagues given the double taxation of corporate dividends. However, their views are similar, with 5 percentage points more thinking dividends should be preferred, with no difference in the number thinking they should be treated as ordinary income. The likely explanation for the similar views of owners of C-corporations and pass-through entities is the same. The double taxation problem is often handled in small, closely-held C-corporations by zeroing out profits (subject to certain IRS rules), thereby not needing to pay the additional levy. Supporting that rationale is the fact that they typically earn relatively little in dividend income elsewhere and much of it is appears to be held in tax preferred pension accounts.

*Tax Preparation*

Small-business owners rarely prepare their own taxes. A professional prepared last year's tax return for 91 percent of NFIB members; 81 percent had them prepared exclusively by a professional and another 10 percent used both a software package and a professional. Five percent used a software package exclusively and 2 percent used neither a professional tax preparer nor a software package. Two percent did not respond.

All subsets of the small-business owner population overwhelmingly use a tax professional. The owners most likely to still prepare their own tax returns are the very smallest, non-employing proprietors. For example, 75 percent of those grossing less than $100,000 prepared theirs with professional help in the last tax year; that rose to 88 percent among those annually grossing between $100,000 and $249,999; the figure reaches 94 percent of those annually grossing between $250,000 and $499,999; etc.

The almost universal employment of tax professionals by small-business owners raises at least two critical issues for public policy. The first is cost, about which much has been written. Tax professionals are expensive. Small business owners spend on average $74.24 per hour (2003 data) on the paperwork associated with tax compliance, the most costly type of paperwork small business

[14] Dividends may or may not be tax preferred, depending on one's view. They can be tax disadvantaged due to their double-taxation (once at the corporate level and again at the personal level). If considered double-taxation, their tax status (advantage or disadvantage) depends on the rate at each point they are taxed. If one considers only the personal rate, they are tax preferred.

experiences.[15] Small-business owners must absorb these fees as a cost of doing business as well as the expenses for internal tax administration (record-keeping) they otherwise would not incur.

The second issue is less noticed, but equally important for policymakers. The heavy use of tax professionals questions the value of many tax incentives. If small-business owners must consult tax professionals, they clearly lack familiarity with tax law. That lack of familiarity includes tax incentives designed to promote "desirable" economic and/or social behavior. Should owners be totally unaware of the incentive, as, for example, most were of the tax credit in the Patient Protection and Affordable Care Act designed to encourage small-business owners to purchase health insurance for their employees,[16] then it provides no motivation to take the desired action. A tax professional may subsequently claim the tax benefit for a client, but it is merely a wind-fall; it has no incentive effect. Even if the owner has passing knowledge of an incentive, it likely has a muted impact. The owner still must consult his tax professional (for a fee) to determine the benefit amount before factoring it into his business decision. The more recent the incentive, the more frequent the change in terms of the incentive (or even its existence), the more complicated the incentive, the less likely the incentive will have the desired effect. Thus, the employment of tax professionals is the simply an expensive "canary in the coal mine;" it warns policy-makers that the code is too complex.

*The Federal Budget and Its Problems*

The nation must tackle its long-term fiscal imbalance. Action to achieve that objective implies a division between spending cuts and revenues raised. The split between the two is a major point of contention at this writing. However, the direction NFIB members prefer is clear. They want spending cuts and to a much lesser degree will take some revenue increases in terms of additional taxes to get them.

A plurality (36%) wants to reduce the federal budget deficit through spending cuts *only*. In other words, 100 percent of the reduction should come from the spending side. These are not outliers. The next largest group (27%) wants the division to approximate a 90 – 10 split, 90 percent spending cuts and 10 percent tax increases. The third largest group (18%) prefers a 75 – 25 split. Eighty-one (81) percent, therefore, want a spending cut to tax increase ratio of at least 3 to 1, with the emphasis on cuts. The majority of the remaining 19 percent either was uncertain (7%) or did not answer (3%). Eight percent preferred a 50 – 50 split. Virtually no one favors more tax increases than spending cuts, or neither tax increases nor spending cuts.

All parties agree that economic growth increases public revenues. However, some tax increases/reductions generate more/fewer revenues in the long-run than others. In other words, the way revenues are raised/reduced matter, though the precise amount of revenue raised by each proposed measure is the subject of heated debate. Further, increased government spending intended to generate greater demand thereby adding revenue is a matter also subject to serious dispute. That leaves the question: what is the best fiscal policy(ies) to encourage more rapid growth.

NFIB members selected the best growth strategy to close the budget deficit from among the following choices: spending cuts alone, spending cuts and tax increases, tax increases alone, changing

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[15] *Paperwork and Record Keeping – NFIB Small Business Poll*, NFIB Research Foundation, Washington, DC, Volume 3; Issue 5; 2003.

[16] See, *Small Business and Health Insurance: One Year After Enactment of PPACA*, May, 2010, http://www.nfib.com/Portals/0/PDF/AllUsers/research/studies/ppaca/NFIB-healthcare-study-201107.pdf. Forty-eight (48) percent of the small employer population (fewer than 50 employees) had heard of the credit of which 23 percent thought they were eligible. Of that 11 percent of the population, a significant percentage of those who thought they were eligible were not. Similarly, a notable share of those who had not heard of the credit proved eligible.

the tax code to provide fewer tax preferences and lower tax rates, and increased spending (priming the pump). Fifty-three (53) percent chose changes to the tax code providing lower rates and fewer preferences. The second most common choice was spending cuts alone (25%). The third was a combination of spending cuts and tax increases (16%). Just 1 percent thinks priming the pump will do the job and less than one-half of one percent think tax increases alone are the appropriate course of action.

*Alternative Tax Systems*

Questions have been raised for a long time about the possibility of adding a major alternative type of tax system at the federal level. The motivation behind the proposals typically has been to raise more revenue. But in the case of the carbon tax, proponents have argued for the tax as a means to reduce consumption of carbon-based energy by adding a tax and raising its price. The VAT, on the other hand, has also been proposed as a minimally distorting consumption tax that is highly efficient and difficult to evade. NFIB members have a passing familiarity with both and are not particularly sympathetic with either proposal.

Fourteen (14) percent of NFIB members claim to be "very familiar" with a carbon tax. Another 48 percent are "somewhat familiar" with it; 36 percent say they are not familiar with the idea. The survey then asked those who either were "very" or "somewhat" familiar with the carbon tax whether in the future they favored or opposed implementing it to reduce or replace another tax in whole or in part. Revenue neutrality was implicit to the question. Even then, the NFIB member verdict is negative. Eleven (11) percent favor introduction of a carbon tax in lieu of another tax, in whole or in part, while 67 percent oppose it. Fourteen (14) percent say they are uncertain or do not have enough information.

But suppose a carbon tax were introduced. What should be done with the new revenues generated? Forty-two (42) percent indicate that they think that the new revenues should be used both to offset other taxes *and* to reduce the deficit; 36 percent identify reducing the deficit as the desired use for the money; and 10 percent say the additional revenue should be used to offset other taxes only. The majority, therefore, do not appear adverse to some new money, should it be available, directed to deficit reduction. On one point, they are absolutely clear: just four-tenths of one percent (0.4%) want new revenues spent on "priorities".

The second alternative tax system assessed was the VAT. A larger proportion claimed at least some familiarity with the VAT than with the carbon tax, likely because it has been in the policy conversation longer and the tax is common throughout the developed world. Still, only 23 percent claim to be "very familiar" with a VAT while 49 percent claim to be "somewhat familiar" with it. Twenty-four (24) percent say they are not familiar with the tax. Those in construction, agriculture, and to a lesser extent, services were somewhat less familiar with the VAT than those in other industries.

The VAT fares better than a carbon tax in the judgment of NFIB members, but not well overall. Seventeen (17) percent of those familiar with a VAT say that they favor introducing it at some point in the future to reduce or replace another tax in whole or in part. That is 6 percentage points more than favoring the carbon tax. Yet, 58 percent oppose introduction of a VAT and 19 percent are undecided or have insufficient information.

Suppose a VAT were introduced this time instead of a carbon tax. What should be done with the new revenues? Forty-three (43) percent say that they think that the revenues should be used both to offset other taxes *and* to reduce the deficit; 29 percent would reduce the deficit; and 16 percent say the additional revenue should be used to offset other taxes only. Seventy-two (72) percent would use at least some of the money to reduce the deficit. Spending the money is again out of the question. Just five-tenths of one percent (0.5%) would spend it on "priorities".

Little difference in small-business owner views of either the carbon tax or the VAT appeared. The exception was modestly higher opposition to the carbon tax among those in the transportation and warehousing industry.

*Bottom Line*

Agree or disagree? My single greatest priority in any fundamental restructuring of the tax law is whether my total tax bill will rise or fall. That seems to be the ultimate question for many NFIB members and they answer it emphatically. Their tax bill is the ultimate test of tax change. Seventy (70) percent agree that their taxes rising or falling is the bottom line; 20 percent disagree, with the remainder not having an opinion (8%) or not answering (0.5%). Differing from many questions in the survey, the results here are not as polarized. The 71 percent agreeing divided into 33 percent strongly agreeing and 38 percent simply agreeing. The 20 percent divided between 3 percent strongly disagreeing and 17 percent agreeing. This result suggests that the primary driver for NFIB members in tax restructuring is whether their total tax bill rises or falls.

The survey highlights the challenges inherent to fundamental tax restructuring. NFIB members are open to growth-promoting changes in the tax code, including a reduction or elimination of some preferences in exchange for lower rates. The caveat is that flattening the base be accompanied by a revenue neutral tax bill and retention of some small-business specific preferences, such as expensing. While NFIB members strongly prefer a tax code with lower rates and fewer preferences, and are willing to eliminate or cap some preferences to achieve lower rates, it can be concluded that they assume that a revised tax code will result in taxes that are on net no higher than they are today.

NFIB members may even hesitantly accept some new revenues in a long-term budget agreement, so long as spending cuts are significantly larger. But, those new revenues would have to be directed to reducing the debt, not continued increases to government spending. The implication is that NFIB members support change in the abstract, but the actual effects on their overall tax liability and compliance costs are critically important.

Methodology

This survey was conducted across a random sample of 12,500 NFIB members between mid-November and mid-December, 2012. The survey was conducted by mail, with an initial mailing and two follow-ups. One thousand two hundred and eighteen (1,218) responded and 1,198 were usable for a 9 percent response rate.

A brief demographic profile of respondents appears at the end of the survey instrument, principally in questions 22 through question 25.

## FEDERAL INCOME TAXES

Mark the appropriate answer(s).

1. Fundamental change in the federal tax code should occur within the next year.

| | |
|---|---|
| 1. Strongly agree | 54.9% |
| 2. Agree | 30.0 |
| 3. No opinion | 3.3 |
| 4. Disagree | 3.1 |
| 5. Strongly Disagree | 2.6 |
| N/A | 6.2 |

2. Which TWO from the list below have the *highest* priority in any fundamental tax change? (Mark TWO only. More than TWO marked answers cannot be counted.)

| | |
|---|---|
| a. Repeal of the AMT (Alternative Minimum Tax) | 19.4% |
| b. Repeal of the estate and gift tax | 45.1 |
| c. Reduced marginal income tax rates | 11.4 |
| d. Allow full expensing of business equipment AND real property | 25.0 |
| e. Eliminate the double tax on corporate dividends | 12.4 |
| f. Reduce tax complexity | 51.8 |
| g. No net tax increase | 24.5 |
| h. Other (Specify) _____________ | 3.2 |
| Fair/Flat tax | 2.0 |
| No second choice | 3.4 |
| N/A | 1.8 |

3. Which TWO from the list below are the *worst* aspects of the current federal income tax system? (Mark TWO only. More than TWO marked answers cannot be counted.)

| | |
|---|---|
| a. Constant change makes planning and compliance difficult. | 41.7% |
| b. Rates are too progressive (too much difference between low tax brackets and high ones). | 15.7 |
| b. Deductions, deferrals, credits, and exclusions are inconsistent and distort economic decision-making. | 47.5 |
| e. Doesn't raise enough revenue to pay for government costs. | 6.8 |
| f. Tax rates are too high. | 29.5 |
| g. Complexity raises compliance costs and muddles possible tax incentives. | 36.2 |
| h. Tax considerations unnecessarily affect business decisions. | 16.9 |
| i. Other (Specify) ______________ | 1.8 |
| No second choice | 2.0 |
| N/A | 1.8 |

4. What is the most complex or complicated part of the federal tax code for you and your business?

| | |
|---|---|
| 1. Capital gains | 8.8% |
| 2. Depreciation | 11.8 |
| 3. Pension Rules | 3.8 |
| 4. Passive Income | 4.3 |
| 5. Inventory Accounting | 5.0 |
| 6. AMT | 6.5 |
| 7. Quarterly filings | 3.5 |
| 8. Other _________ | 2.3 |
| 9. I let my tax preparer worry about complexity | 52.2 |
| N/A | 1.8 |

5. Do you think fundamental tax change should be part of a larger effort to bring the federal budget deficit under control, or be an independent effort to rationalize the tax code?

| | |
|---|---|
| 1. Strongly - Part of overall budget effort | 42.2% |
| 2. Part of overall budget efforts | 20.1 |
| 3. No opinion | 6.8 |
| 4. Independent effort | 15.9 |
| 5. Strongly - Independent effort | 13.5 |
| N/A | 1.4 |

6. Fundamental tax change will NOT result in less complexity, no matter what the intent.

| | |
|---|---|
| 1. Strongly agree | 17.0% |
| 2. Agree | 38.4 |
| 3. No opinion | 10.9 |
| 4. Disagree | 24.2 |
| 5. Strongly Disagree | 8.3 |
| N/A | 1.2 |

7. Regardless of any other outcome, my single greatest priority in any fundamental change in the tax laws is whether my total tax bill will rise or fall.

| | |
|---|---|
| 1. Strongly agree | 32.9% |
| 2. Agree | 38.2 |
| 3. No opinion | 7.7 |
| 4. Disagree | 17.4 |
| 5. Strongly Disagree | 3.3 |
| N/A | 0.5 |

*Tax preferences, such as deductions, deferrals, credits, and exclusions, allow certain types of income to be taxed more advantageously (or not at all).*

8. As a general rule, do you favor a federal tax code with *more* tax preferences and *higher* tax rates, OR a code with *fewer* tax preferences and *lower* tax rates?

| | |
|---|---|
| 1. More preferences and higher rates – strongly | 0.8% |
| 2. More preferences and higher rates – somewhat | 1.8 |
| 3. Uncertain or not enough information | 18.3 |
| 4. Fewer preferences and lower rates – somewhat | 26.5 |
| 5. Fewer preferences and lower rates – strongly | 51.7 |
| N/A | 0.9 |

9. *In the following questions, some major tax preferences are identified. They could be reduced or eliminated in exchange for lower personal income tax rates. Changes, if made, should be phased in over time. Please indicate if you favor or oppose trading a specific tax preference for lower tax rates.*

A. Investors currently do not pay tax on interest payments from state, municipal, and development bonds. Do you favor or oppose eliminating this tax preference in exchange for lower personal income tax rates?

| | |
|---|---|
| 1. Strongly favor | 15.2% |
| 2. Favor | 32.3 |
| 3. Uncertain/Insufficient information | 20.0 |
| 4. Oppose | 21.5 |
| 5. Strongly oppose | 8.2 |
| N/A | 2.8 |

B. Non-business state and local taxes (including property taxes) are deductible. Do you favor or oppose eliminating this deduction in exchange for lower personal income tax rates?

| | |
|---|---|
| 1. Strongly favor | 7.3% |
| 2. Favor | 20.8 |
| 3. Uncertain/Insufficient information | 15.2 |
| 4. Oppose | 34.3 |
| 5. Strongly oppose | 20.1 |
| N/A | 2.3 |

C. Employees can now exclude (not count) from income the amount their employer pays for health insurance. Do you favor or oppose capping the exclusion at $5,000 for employees who receive employer-paid health insurance in exchange for lower personal income tax rates? (Employers could still deduct their contribution as a business expense.)

| | |
|---|---|
| 1. Strongly favor | 17.5% |
| 2. Favor | 39.1 |
| 3. Uncertain/Insufficient information | 19.5 |
| 4. Oppose | 15.6 |
| 5. Strongly oppose | 6.2 |
| N/A | 2.1 |

C1. Is your view on the cap in the previous question based on the principle of capping the exclusion or the amount of the cap ($5,000)?

| | |
|---|---|
| 1. Strongly principle | 15.2% |
| 2. Principle | 30.7 |
| 3. No opinion | 24.7 |
| 4. The cap | 17.1 |
| 5. Strongly the cap | 4.6 |
| N/A | 7.7 |

D. Do you favor or oppose capping the total amount (all) of non-business deductions that any taxpayer can take, regardless of what those deductions are, to 15 percent of adjusted gross income in exchange for in lower personal income tax rates?

| | |
|---|---|
| 1. Strongly favor | 12.4% |
| 2. Favor | 32.9 |
| 3. Uncertain/Insufficient information | 23.9 |
| 4. Oppose | 18.6 |
| 5. Strongly oppose | 9.1 |
| N/A | 3.1 |

D1. Is your view on the cap based on the principle of capping total deductions or the amount of the cap (15%)?

| | |
|---|---|
| 1. Strongly principle | 14.7% |
| 2. Principle | 34.1 |
| 3. No opinion | 23.5 |
| 4. The cap | 14.9 |
| 5. Strongly the cap | 3.8 |
| N/A | 9.0 |

E. A tax credit, known as the "Production Tax Credit," is allowed for the production and sale of electricity from wind, biomass, geothermal, solar, and municipal solid waste. Do you favor or oppose eliminating this deduction in exchange for lower personal income tax rates?

| | |
|---|---|
| 1. Strongly favor | 27.6% |
| 2. Favor | 35.7 |
| 3. Uncertain/Insufficient information | 17.4 |
| 4. Oppose | 12.7 |
| 5. Strongly oppose | 4.3 |
| N/A | 2.3 |

*Homeowners currently can deduct mortgage interest on homes up to $1.1 million a year. These limits apply to mortgages on a primary residence, a second (non-rental) home, and home equity loans.*

F. Do you favor or oppose capping the mortgage interest deduction at $500,000 for a primary residence in exchange for lower personal income tax rates?

| | | |
|---|---|---|
| 1. Strongly favor | | 30.6% |
| 2. Favor | | 42.0 |
| 3. Uncertain/Insufficient information | | 7.1 |
| 4. Oppose | | 11.8 |
| 5. Strongly oppose | | 6.5 |
| | N/A | 2.0 |

F1. Is your view on the cap in the previous question based on the principle of capping the deduction or the amount of the deduction's cap ($500,000)?

| | | |
|---|---|---|
| 1. Strongly principle | | 20.5% |
| 2. Principle | | 33.5 |
| 3. No opinion | | 9.6 |
| 4. The cap | | 23.0 |
| 5. Strongly the cap | | 8.5 |
| | N/A | 4.8 |

G. Do you favor or oppose eliminating the mortgage interest deduction on SECOND residences in exchange for lower personal income tax rates?

| | | |
|---|---|---|
| 1. Strongly favor | | 27.7% |
| 2. Favor | | 35.5 |
| 3. Uncertain/Insufficient information | | 8.1 |
| 4. Oppose | | 19.4 |
| 5. Strongly oppose | | 7.5 |
| | N/A | 1.8 |

H. Do you favor or oppose eliminating the interest deduction on home equity loans in exchange for lower personal income tax rates?

| | | |
|---|---|---|
| 1. Strongly favor | | 15.8% |
| 2. Favor | | 26.6 |
| 3. Uncertain/Insufficient information | | 11.9 |
| 4. Oppose | | 31.8 |
| 5. Strongly oppose | | 10.9 |
| | N/A | 3.0 |

10. Should *capital gains* be treated for personal income tax purposes as ordinary income or should they be taxed at a lower rate?

| | | |
|---|---|---|
| 1. Strongly, ordinary income | | 8.5% |
| 2. Not so strongly, ordinary income | | 10.7 |
| 3. No opinion | | 8.9 |
| 4. Not so strongly, tax preferred income | | 17.3 |
| 5. Strongly, tax preferred income | | 52.3 |
| | N/A | 2.3 |

11. Should *dividends* be treated for personal income tax purposes as ordinary income or should they be taxed at a lower rate? (Assumes that double-taxation of dividends at the corporate level is eliminated.)

| | |
|---|---|
| 1. Strongly, ordinary income | 16.7% |
| 2. Not so strongly, ordinary income | 17.6 |
| 3. No opinion | 11.0 |
| 4. Not so strongly, tax preferred income | 12.9 |
| 5. Strongly, tax preferred income | 39.6 |
| N/A | 2.2 |

12. If fundamental tax reform reduced tax complexity enough to lower the cost of tax preparation, would you accept a ____ percent increase in personal income taxes to compensate for your lower administrative costs.

| | |
|---|---|
| 1. No increase | 63.3% |
| 2. 1% increase | 14.4 |
| 3. 2% increase | 6.2 |
| 4. 5% increase | 1.9 |
| 5. No opinion | 11.6 |
| N/A | 2.6 |

*The United States is currently experiencing the fourth consecutive annual federal budget deficit of more than $1 trillion dollars, forcing our total national debt to twice the amount is was in 2007. The total will continue to grow no matter what happens in the next few years. However, by seriously addressing the problem, we can start reducing the size of annual deficits and work toward a balanced annual budget. How do we reduce the deficit?*

13. What should be the approximate ratio of spending cuts to tax increases?

| | |
|---|---|
| 1. 100% spending cuts/0% tax increases | 36.2% |
| 2. 90% spending cuts/10% tax increases | 27.4 |
| 3. 75% spending cuts/25% tax increases | 18.0 |
| 4. 50% spending cuts/50% tax increases | 7.5 |
| 5. 25% spending cuts/75% tax increases | 0.3 |
| 6. 10% spending cuts/90% tax increases | 0.2 |
| 7. 0% spending cuts/100% tax increases | 0.7 |
| 8. Uncertain/Insufficient information | 7.0 |
| N/A | 2.7 |

14. Faster economic growth will help to reduce the size of the Federal Government's annual deficits. But what is the BEST way to achieve more rapid growth?

| | |
|---|---|
| 1. Spending cuts alone | 24.5% |
| 2. Spending cuts and tax increases | 16.0 |
| 3. Tax increases alone | 0.3 |
| 4. Revising the tax code, emphasizing fewer preferences and lower rates | 53.3 |
| 5. Temporarily spending more ("priming the pump") | 0.8 |
| 6. No opinion | 3.0 |
| N/A | 2.2 |

15. A carbon tax, that is, a tax placed on carbon-based fuels, principally coal and oil, is a tax that potentially could reduce tax rates or replace other taxes in whole or in part. Are you familiar with the carbon tax proposal?

| | |
|---|---|
| 1. Yes, very familiar → continue | 14.4% |
| 2. Yes, somewhat familiar→ continue | 45.6 |
| 3. No → Go to Q#15b | 35.7 |
| N/A | 4.3 |

15a. What is your view of implementing a carbon tax at some point in the future to reduce or replace another tax in whole or part?

| | |
|---|---|
| 1. Strongly favor | 1.7% |
| 2. Favor | 9.0 |
| 3. Not enough information | 14.1 |
| 4. Oppose | 31.2 |
| 5. Strongly Opposed | 44.0 |

15b. If a carbon tax were enacted, what should be done with revenues from it? Should they be used to:?

| | |
|---|---|
| 1. Offset other taxes only | 9.9% |
| 2. Reduce the deficit | 35.8 |
| 3. Both, offset other taxes and cut the deficit | 42.3 |
| 4. Spend on priorities | 0.4 |
| 5. No opinion | 6.3 |
| N/A | 5.2 |

16. A VAT (value added tax) is a type of national sales tax that is levied at every step of the production-distribution-consumption chain. Are you familiar with the VAT?

| | |
|---|---|
| 1. Yes, very familiar → continue | 22.5% |
| 2. Yes, somewhat familiar→ continue | 49.0 |
| 3. No → Go to Q#16b | 24.2 |
| N/A | 4.3 |

16a. What is your view of implementing a VAT at some point in the future to reduce or replace another tax in whole or part?

| | |
|---|---|
| 1. Strongly favor | 7.7% |
| 2. Favor | 9.2 |
| 3. Not enough information | 18.9 |
| 4. Oppose | 24.4 |
| 5. Strongly Opposed | 33.4 |
| N/A | 6.3 |

16b. If a VAT were enacted, what should be done with revenues from it? Should they be used to:?

| | |
|---|---|
| 1. Offset other taxes only | 16.2% |
| 2. Reduce the deficit | 28.8 |
| 3. Both, offset other taxes and cut the deficit | 42.7 |
| 4. Spend on priorities | 0.5 |
| 5. No opinion | 6.3 |
| N/A | 5.5 |

17. Did you use a professional tax preparer, a tax software package, both, or neither to prepare your last federal income tax return?

| | |
|---|---|
| 1. Used professional tax preparer | 80.6% |
| 2. Used tax software package | 5.4 |
| 3. Used both a tax professional and tax software | 10.4 |
| 4. Used neither a tax professional nor tax software | 2.1 |
| N/A | 1.6 |

18. I (my tax advisor) had to calculate the Alternative Minimum Tax (AMT) this last tax year.

| | |
|---|---|
| 1. Yes → continue | 35.7% |
| 2. No → go to Q#19 | 27.5 |
| 3. Don't recall → got to Q#19 | 30.6 |
| N/A | 6.1 |

18a. I had to pay the Alternative Minimum Tax (AMT) this last tax year? (Only of those calculated.)

| | |
|---|---|
| 1. Yes | 47.0% |
| 2. No | 40.4 |
| 3. Don't recall | 11.0 |
| N/A | 1.6 |

19. Please estimate the amount of depreciable business assets, including real property and their improvements, purchased in your last year.

| | |
|---|---|
| 1. <$10,000 | 29.5% |
| 2. $10,000 - $49,999 | 23.2 |
| 3. $50,000 - $99,999 | 11.9 |
| 4. $100,000 - $249,999 | 10.9 |
| 5. $250,000 - $499,999 | 6.4 |
| 6. $500,000 - $999,999 | 3.2 |
| 7. $1 M or more | 2.3 |
| 8. Can't recall | 4.4 |
| 9. Prefer not to answer | 5.4 |
| N/A | 2.8 |

20. Please estimate the amount *outstanding* on your home mortgage (first, second, and home equity, if applicable).

| | |
|---|---|
| 1. No mortgage | 40.7% |
| 2. <$50,000 | 6.7 |
| 3. $50,000 - $99,000 | 11.0 |
| 4. $100,000 - $249,000 | 19.0 |
| 5. $250,000 - $499,000 | 12.4 |
| 6. $500,000 or more | 3.2 |
| 7. Can't recall | 0.5 |
| 8. Prefer not to answer | 4.5 |
| N/A | 1.9 |

21. Have you incurred any expenses in the last five years, such as in consulting a tax advisor or purchasing more life insurance than you otherwise would, in order to reduce or eliminate any potential tax liability from the estate tax?

| | |
|---|---|
| 1. Yes | 34.4% |
| 2. No, but expect to in the future | 15.2 |
| 3. No | 44.8 |
| 4. Do not plan to pass on the business | 3.8 |
| N/A | 1.8 |

22. What is your legal form of business?

| | |
|---|---|
| 1. Proprietorship | 18.0% |
| 2. Partnership | 3.1 |
| 3. S-Corporation | 44.5 |
| 4. C-Corporation | 21.2 |
| 5. Limited Liability Corp. (LLC) | 11.6 |
| N/A | 1.6 |

23. What is the primary industry of your business?

| | |
|---|---|
| 1. Construction | 12.2% |
| 2. Manufacturing | 11.4 |
| 3. Agriculture | 15.4 |
| 4. Retail, Wholesale | 20.1 |
| 5. Finance, Insurance, Real Estate | 10.7 |
| 6. Transportation/Warehousing | 2.8 |
| 7. Services | 25.5 |
| 8. Other (specify) _______ | 1.1 |
| N/A | 0.8 |

24. How many employees do you have not counting the owner(s)?

| | |
|---|---|
| 1. None | 11.3% |
| 2. 1-4 employees | 30.7 |
| 3. 5-9 employees | 22.0 |
| 4. 10 – 14 employees | 10.9 |
| 5. 15-19 employees | 6.6 |
| 6. 20 – 49 employees | 10.9 |
| 7. 50 – 99 employees | 3.4 |
| 8. 100+ employees | 3.4 |
| N/A | 0.8 |

25. Approximately, what were your gross sales in your last fiscal year?

| | |
|---|---|
| 1. < $100,000 | 7.4% |
| 2. $100,000 - $249,999 | 10.3 |
| 3. $250,000 - $499,999 | 13.7 |
| 4. $500,000 - $999,999 | 15.9 |
| 5. $1m - $4.9m | 29.1 |
| 6. $5m - $9.9m | 7.2 |
| 7. $10m plus | 6.5 |
| 8. Prefer not to answer | 8.0 |
| N/A | 1.9 |