

NSBA 2018 SMALL BUSINESS TAXATION SURVEY

FOREWORD

At the end of 2017, Congress passed--and the President signed--legislation to reform federal taxes, the *Tax Cuts and Jobs Act (H.R. 1)*. While a good deal of the impacts of this legislation won't be fully realized until next year, small businesses are facing significant changes. Unfortunately, tax administration continues to be wildly complex, usurping far too much time and resources away from business growth and hiring.

The National Small Business Association's (NSBA) 2018 Small Business Taxation Survey provides small-business opinions on the U.S. tax code, the *Tax Cuts and Jobs Act* and priorities for ongoing fixes to the tax code. With more than 80 years as the nation's first small-business advocacy organization, NSBA is a staunchly nonpartisan organization where our members determine policy priorities. NSBA's surveys aim to provide our members, policymakers, thought leaders and the media with critical data on the small-business community.

When it comes to federal taxes, administrative burdens continues to far outpace financial burdens, and unfortunately, there doesn't seem to be a light at the end of the tunnel: complexity is expected to increase for tax year 2018. One-in-three small businesses report spending more than 40 hours each year on federal taxes. The majority of small businesses—63 percent—spend more than \$1,000 each year on the administration alone of federal taxes.

The majority of small-business owners say federal taxes have a significant to moderate impact on the day-to-day operation of their business. One-in-three small-business owners spend more than \$500 each month on payroll services, and among those small businesses that do collect sales taxes, one-in-three report spending upwards of one full work week each year.

No surprise, payroll taxes and income taxes were ranked the top two most burdensome taxes for small businesses. The administrative headache of employee tax withholding and reporting likely drives the fact that the majority of firms with more than five employees now use an external payroll company.

NSBA wanted to get a baseline idea of how the *Tax Cuts and Jobs Act* is impacting America's small-business owners today, and what they anticipate down the road. Only 45 percent of small businesses say they believe they will see a benefit—directly or indirectly—from the *Tax Cuts and Jobs Act*, and among those, just seven percent said filing taxes will be easier. The temporary nature of many of the law's small-business tax cuts is an issue for most respondents. Permanent tax breaks for C Corporations, combined with only temporary tax cuts for "pass-through" companies appears to be driving the fact that one-in-three small businesses are at least considering switching from a pass-through entity to a corporation—a significant amount of time that could be spend far better on any number of growth strategies.

While the law is far from perfect, NSBA ultimately supported it as a good start to what meaningful, broad tax reform should look like. America's small-business owners have consistently ranked "tax reform" among the top issues for Congress to address. Even with the reforms in the *Tax Cuts and Jobs Act*, more must be done to simplify taxes, achieve parity in taxation between large and small businesses, eliminate sunsets and make tax reform permanent, and address the deficit.

Conducted online March 23 – April 5 among 953 small-business owners, we hope this survey provides timely and useful information on how taxes impact America's small-business community. Please contact NSBA's media department with any questions.

Sincerely,



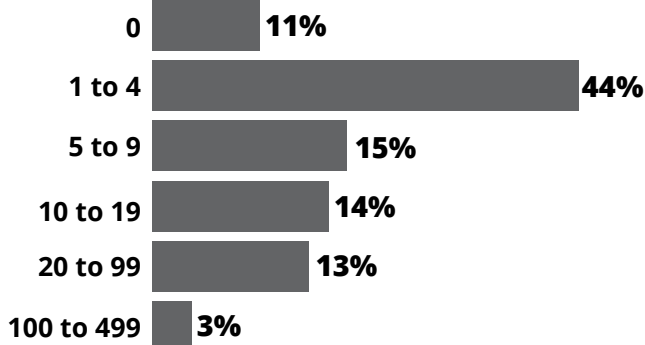
Cynthia Kay
NSBA Chair
Cynthia Kay & Company



Todd McCracken
NSBA President and CEO

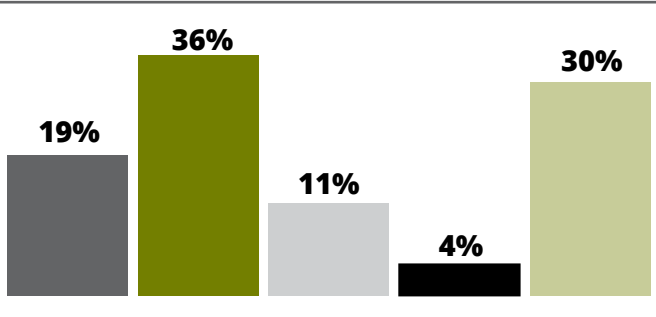
DEMOGRAPHICS

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

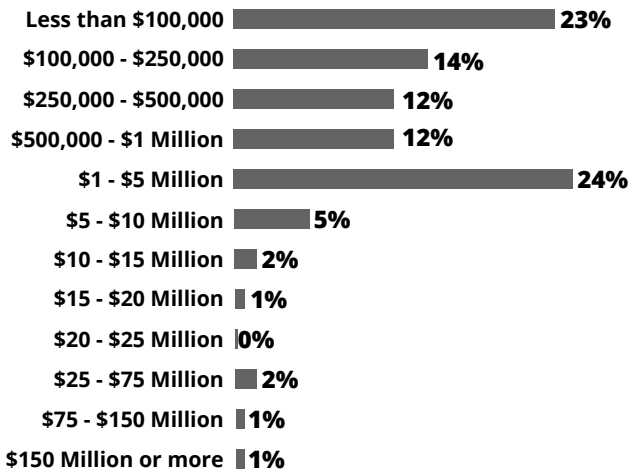


Which of the following best describes the structure of your business?

CORPORATION
 S-CORP
 SOLE PROPRIETORSHIP
 PARTNERSHIP
 LLC



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



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

| | |
|---|-----|
| Professional | 15% |
| Manufacturing | 12% |
| Scientific and Technical Services | 12% |
| Other Services (except Public Administration) | 11% |
| Construction | 10% |
| Information (IT) | 7% |
| Retail Trade | 6% |
| Health Care and Social Assistance | 5% |
| Agriculture, Forestry, Fishing and Hunting | 3% |
| Real Estate, Rental and Leasing | 3% |
| Wholesale Trade | 3% |
| Educational Services | 2% |
| Management of Companies and Enterprises | 2% |
| Transportation and Warehousing | 2% |
| Administrative and Support | 2% |
| Arts, Entertainment, and Recreation | 2% |
| Finance | 1% |
| Waste Management and Remediation Services | 1% |
| Insurance | 1% |
| Utilities | 1% |
| Accommodation and Food Services | 1% |

SMALL-BUSINESS TAX BURDEN

Two-thirds of small firms must pay an external accountant to handle their company's taxes

How do you prepare your company's taxes?



External tax practitioner/accountant

68%

I or a member of my staff handles it

16%

Both

15%

Please select which of the following tax filing and payment timelines best applies to your business.

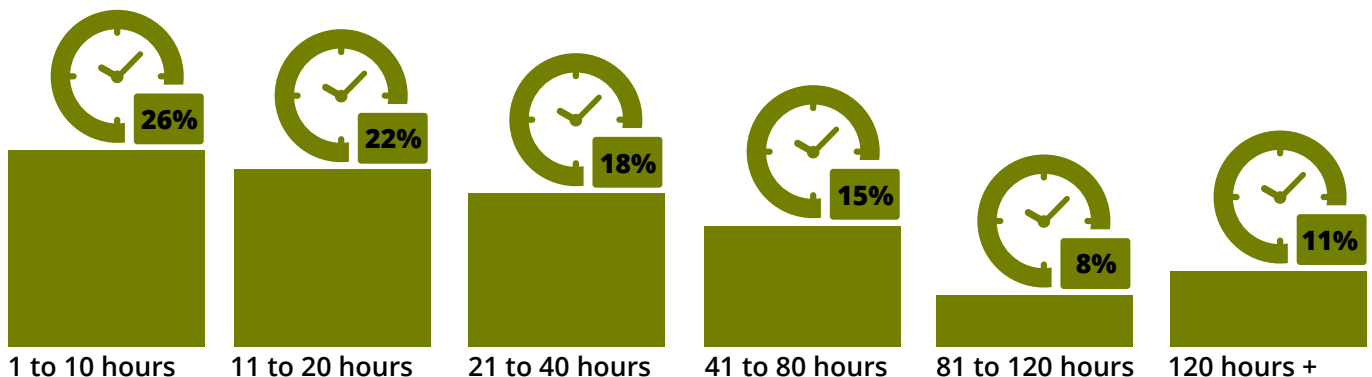
| | |
|--|-----|
| I file on time but typically don't owe anything | 20% |
| I file and pay on time | 49% |
| I file on time and pay over the year under a payment agreement | 8% |
| I file under extension but typically don't owe anything | 10% |
| I file and pay under extension | 13% |

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

| | |
|--------------------|-----|
| Significant impact | 23% |
| Moderate impact | 34% |
| Small impact | 31% |
| No impact | 12% |

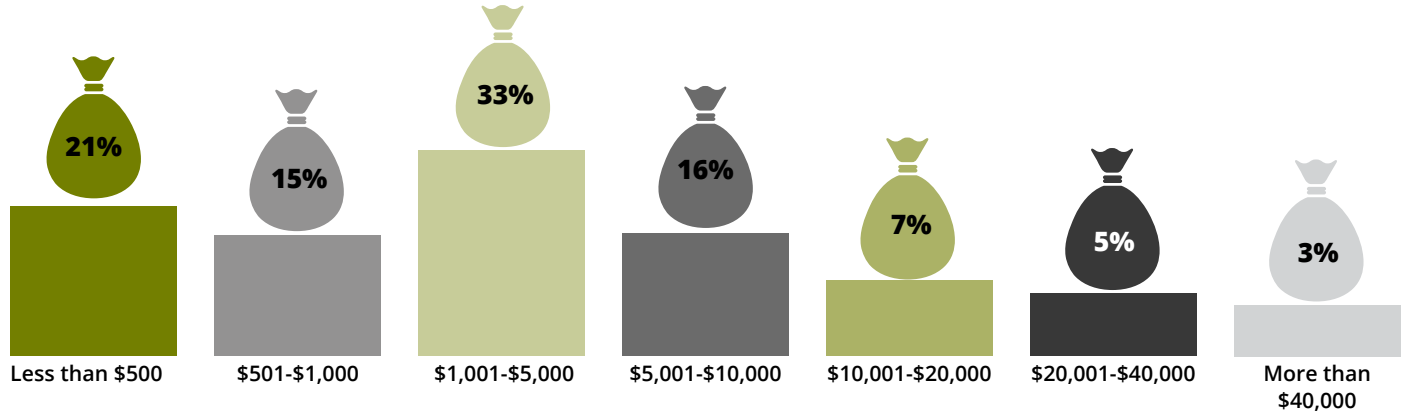
One-in-three small businesses report spending more than 40 hours each year on federal taxes.

Approximately how much TIME do you and/or your staff spend each year dealing with federal taxes, i.e.: calculating payroll, self-employment or any other business-related tax, filing reports, working with your accountant, estate planning, etc...?



SMALL-BUSINESS TAX BURDEN

Approximately how much MONEY do you spend each year on the administration of federal taxes NOT including your owed taxes (i.e.: accountant fees, internal costs for administration of taxes, legal fees, etc...)?



The majority of small businesses—63 percent—spend more than \$1,000 each year on the administration alone of federal taxes.

For tax year 2017, which of the following taxes is most burdensome in terms of their ADMINISTRATIVE burden on you and your business?

| | |
|--|------------|
| Income taxes (I am a pass-through entity) | 35% |
| Payroll taxes | 24% |
| State and local tax compliance | 13% |
| Sales tax | 8% |
| Corporate taxes (I am a c-corp) | 7% |
| Property taxes | 4% |
| Medicare surcharge under Affordable Care Act | 2% |
| Capital gains taxes | 1% |
| Estate tax | 1% |
| Alternative Minimum Tax | 1% |
| Excise taxes | 1% |
| International taxes (I export) | 1% |
| Import taxes (I import) | 0% |
| Other | 4% |

For tax year 2017, which of the following taxes is most burdensome in terms of their FINANCIAL burden on you and your business?

| | |
|--|------------|
| Income taxes (I am a pass-through entity) | 43% |
| Payroll taxes | 24% |
| State and local tax compliance | 9% |
| Corporate taxes (I am a c-corp) | 7% |
| Property taxes | 5% |
| Sales tax | 3% |
| Capital gains taxes | 1% |
| Alternative Minimum Tax | 1% |
| Medicare surcharge under Affordable Care Act | 1% |
| Estate tax | 1% |
| International taxes (I export) | 1% |
| Excise taxes | 0% |
| Import taxes (I import) | 0% |
| Other | 3% |

Administrative burden continues to outpace financial burdens when it comes to federal taxes – and that burden is expected to increase for tax year 2018.

SMALL-BUSINESS TAX BURDEN

For tax year 2017, what is the largest burden posed to you by the federal tax code?

| | |
|---|------------|
| Financial cost to my business | 36% |
| Administration of tax forms and the time it takes | 13% |
| Complexity | 19% |
| Concern over getting audited | 3% |
| Amount of paperwork that must be completed | 6% |
| The lack of consistency/continuously changing regulations | 10% |
| Uncertainty and/or retroactive tax legislating | 4% |
| Inequity within the Code | 6% |
| Other | 4% |

For tax year 2018, what do you expect to be the largest burden posed to your business by the federal tax code under the new Tax Cut and Jobs Act law?

| | |
|---|------------|
| Financial cost to my business | 29% |
| Administration of tax forms and the time it takes | 9% |
| Complexity | 15% |
| Concern over getting audited | 2% |
| Amount of paperwork that must be completed | 4% |
| The lack of consistency/continuously changing regulations | 10% |
| Uncertainty with taxes moving forward | 19% |
| Inequity within the Code | 5% |
| Implications of increased debt | 2% |
| Other | 4% |

Administrative burden continues to outpace financial burdens when it comes to federal taxes – and that burden is expected to increase for tax year 2018.

What kind of burden is the most significant posed to you by the federal tax code?



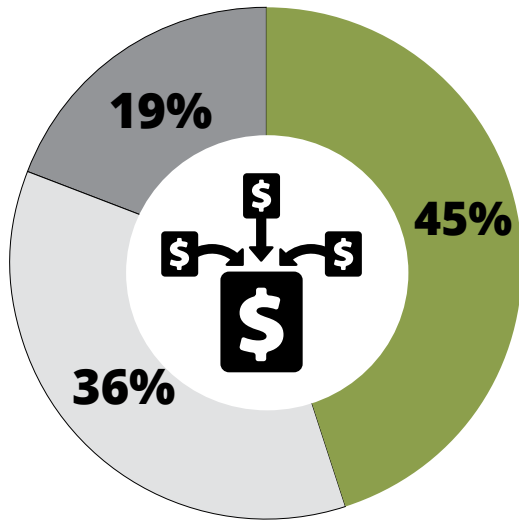
| | Tax Year 2018* | Tax Year 2017 |
|----------------|-----------------------|----------------------|
| Administrative | 67% | 60% |
| Financial | 29% | 36% |
| Other | 4% | 4% |

*Anticipated

PAYROLL

Does your company use a payroll service to prepare your payroll?

- Yes
- No - we handle it internally
- No - we have no employees

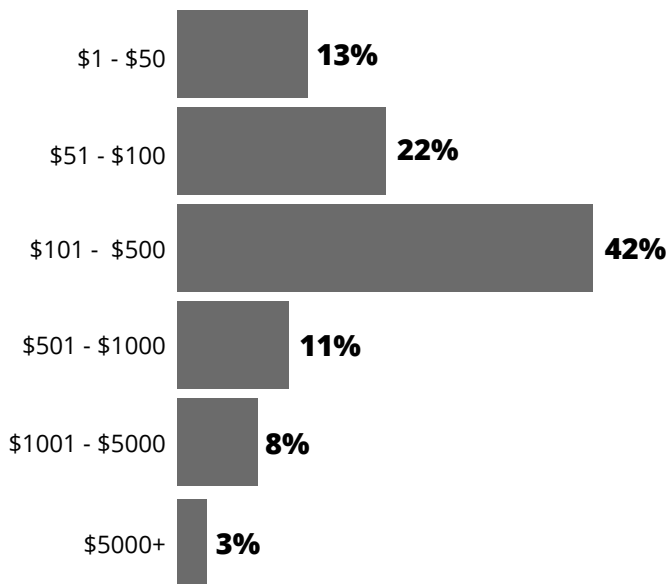


One-in-five small-business owners report spending more than six hours each month handling payroll taxes internally. Among small firms with five or more employees, that figure jumps to one-in-three.

If you handle payroll internally, approximately how much time do you spend on the administration of payroll taxes?

| | |
|-------------------------------|------------|
| No time - I have no employees | 8% |
| 1 to 2 hours per month | 46% |
| 3 to 5 hours per month | 26% |
| 6 to 10 hours per month | 14% |
| More than 10 hours per month | 6% |

Approximately how much MONEY does your company spend per month with the payroll company?



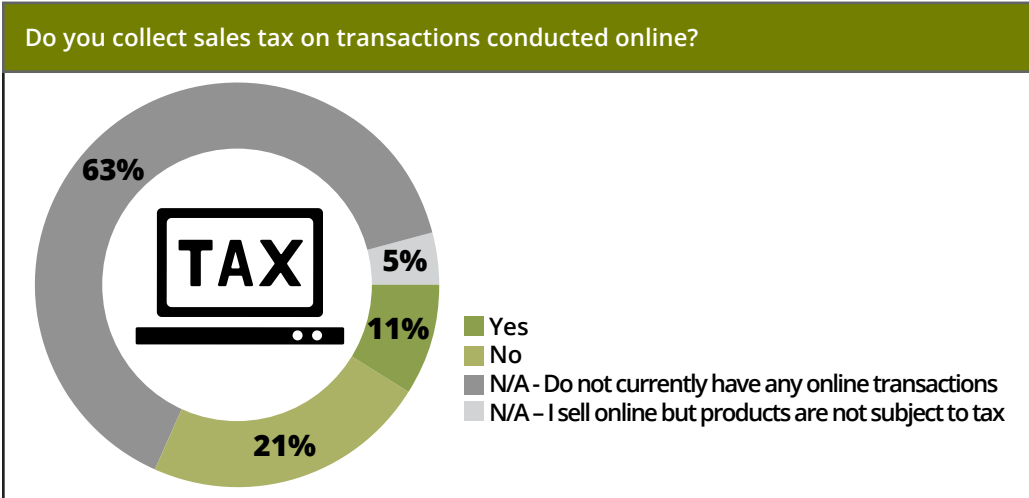
More than half of small firms with five or more employees pay an outside firm to prepare their payroll.

Even if you pay an outside payroll company, please estimate the amount of time you spend on the administration of payroll taxes?

| | |
|-------------------------------|------------|
| No time - I have no employees | 2% |
| 1 to 2 hours per month | 51% |
| 3 to 5 hours per month | 31% |
| 6 to 10 hours per month | 8% |
| More than 10 hours per month | 8% |

One-in-three small-business owners spend more than \$500 each month on payroll services.

SALES TAX



Small business is equally split in terms of whether they support or oppose some kind of sales tax requirement on all companies.

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 | 21% |
| Yes, with an exemption for companies with less than \$1 million in annual revenue | 11% |
| Yes, with an exemption for companies with less than \$5 million in annual revenue | 6% |
| Yes, with an exemption for companies with less than \$10 million in annual revenue | 2% |
| Yes, with an exemption for companies with less than \$30 million in annual revenue | 2% |
| Yes, with no exemptions | 4% |
| No | 37% |
| Not Sure | 26% |

While the majority of respondents don't collect sales taxes, among those who do, one-in-three report spending one full work week and more each year on sales tax.



SALES TAX

Please rank the most important small-business protection when it comes to proposed online streamlined sales tax requirements.

1. Exemption for small firms under a certain gross receipts threshold
2. Free, reliable and easy to implement software
3. Safe-harbor for inadvertent tax mistakes
4. Reduced administrative and paperwork burdens
5. One national collection office which remits taxes to states on behalf of the business
6. One centralized collection office within states

A small-business sales-tax exemption was the number-one protection supported by small business.

Please indicate how significant a burden each of the following issues is when it comes to small firms collecting online, multi-state sales tax.

| | Significant concern | Moderate concern | Not a concern |
|--|---------------------|------------------|---------------|
| Cost of software to calculate sales tax | 31% | 34% | 34% |
| Reliability of software to calculate sales tax | 25% | 34% | 40% |
| Threat of tax liability in case of inadvertent errors | 45% | 29% | 26% |
| Threat of increased audits | 45% | 28% | 27% |
| Navigating various state tax rules and deadlines | 57% | 22% | 21% |
| Keeping abreast of various state tax changes (incl. rate and deadline changes) | 56% | 24% | 20% |
| Appropriate holding and disbursement of collected sales tax | 43% | 29% | 28% |

Navigating various state tax rules and deadlines is the biggest concern among small businesses when it comes to sales taxes, followed by keeping abreast of various state tax changes.

TAX CUTS AND JOBS ACT

At the end of 2017, Congress passed, and the President signed, legislation to reform federal taxes, the *Tax Cuts and Jobs Act*, the majority of which is in effect for tax year 2018. Although a good deal of the impacts of this legislation won't be fully realized until next year, NSBA wanted to get a baseline idea of how the law is impacting America's small-business owners today, and what they anticipate down the road.

Just 45 percent of small businesses say they believe they will see any benefit—direct or indirect—from the Tax Cut and Jobs Act.

Among those small businesses who say they will benefit from the *Tax Cuts and Jobs Act*, a paltry 7 percent said filing taxes will be easier.

The majority of small businesses say the temporary nature of the small-business tax cuts is an issue for their business.

One-in-three small businesses plan to, or are considering, switching from a pass-through entity to a C-Corporation as a result of the *Tax Cuts and Jobs Act*.

The number one ongoing fix small businesses want to see to the federal tax system: simplification.



How directly beneficial to your business do you believe the *Tax Cuts and Jobs Act*, passed in December 2017 will be to your business?

| | |
|---|------------|
| Very | 13% |
| Somewhat | 29% |
| No impact | 19% |
| It will harm my business | 10% |
| It will be indirectly beneficial to my business | 3% |
| Not sure | 26% |

Among small businesses who said the *Tax Cuts and Jobs Act* will positively impact thier business, how?

| | |
|--|------------|
| My taxes will be lower | 58% |
| Filing my taxes will be easier | 7% |
| Lower taxes will increase consumer spending and increase revenues in my business | 26% |
| Other | 9% |

TAX CUTS AND JOBS ACT

How significant an issue is it for your business that certain pass-through credits/ deductions and the lower tax rates for pass-throughs will expire in 2022?



| | |
|--------------------------------|------------|
| Very | 33% |
| Somewhat | 30% |
| Not an issue | 20% |
| Was not aware they will expire | 17% |

Do you anticipate the complexity of filing taxes for your business in 2018 under the *Tax Cuts and Jobs Act* will...



| | |
|---------------|------------|
| Increase | 33% |
| Decrease | 10% |
| Stay the Same | 35% |
| No Idea | 22% |

Do you have any plans to restructure your business as a result of tax reform provisions in the coming year?

| | |
|--|------------|
| Yes - from a pass-through to a C-Corporation | 3% |
| Yes - from a C-Corporation to a pass-through | 1% |
| Considering, but no decision yet | 28% |
| Have not considered it | 30% |
| No | 38% |

TAX CUTS AND JOBS ACT

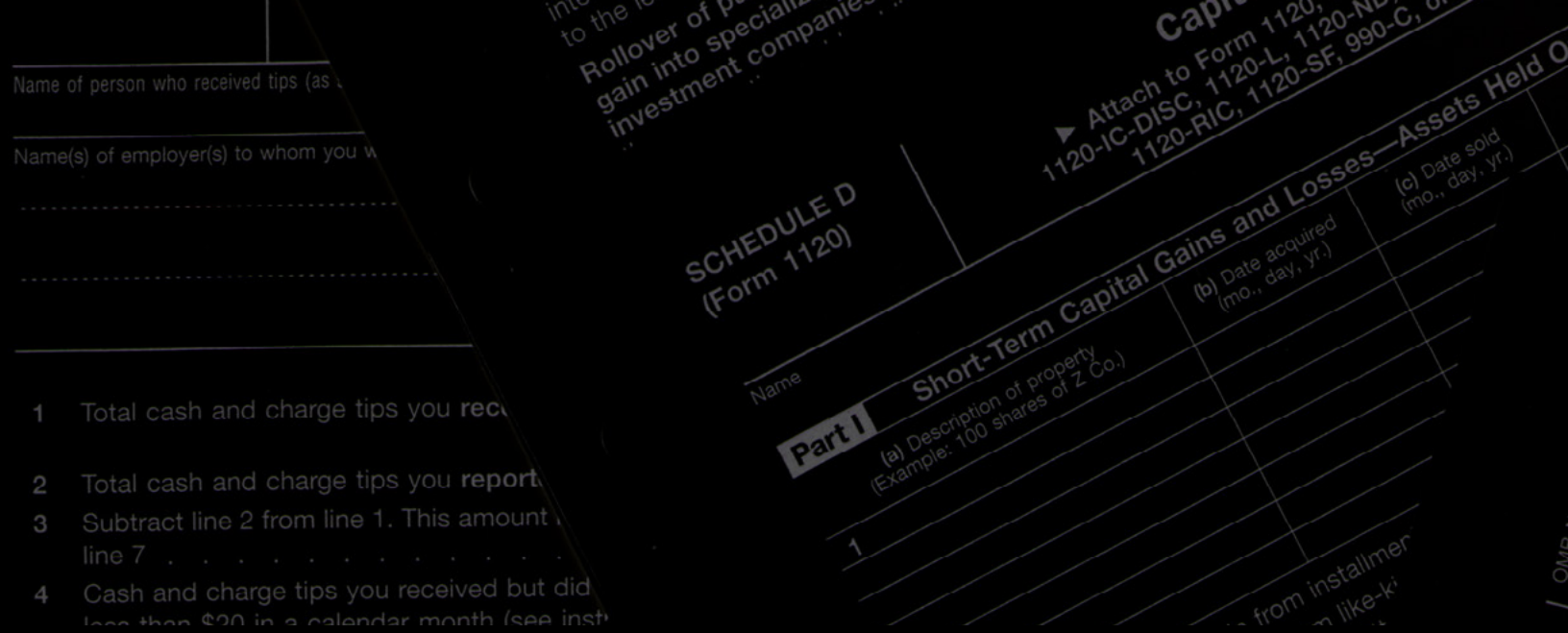
Which of the following do you anticipate in tax year 2018 as a result of the complicated formula for calculating “qualified business income” under the *Tax Cuts and Jobs Act* law? (check all that apply)

| | |
|-------------------------------------|------------|
| Business taxes will increase | 23% |
| Business taxes will decrease | 19% |
| Personal taxes will increase | 24% |
| Personal taxes will decrease | 15% |
| Administration costs will increase | 30% |
| Administration costs will decrease | 3% |
| No idea | 32% |
| Not aware of the issue | 8% |
| Not impacted – I am a C-Corporation | 7% |

Please rank the following in terms of being your top priorities for ongoing fixes to the *Tax Cuts and Jobs Act*?

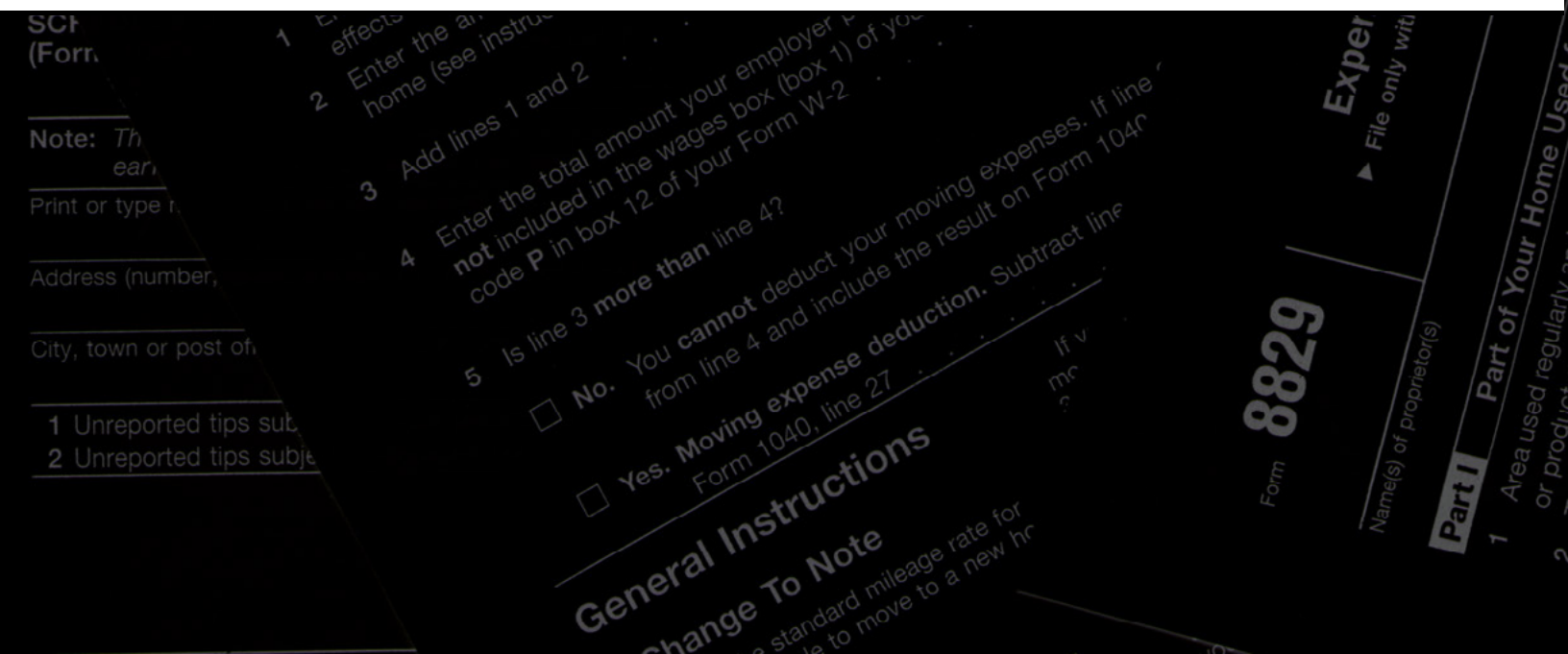


1. Simplification
2. Parity between small and large businesses
3. Permanency and predictability
4. Address the deficit



METHODOLOGY

The 2018 Small Business Taxation Survey was conducted online March 23-April 5 among 953 small-business owners, both NSBA members and non-members, representing every industry in every state in the nation.



NSBA TAX REFORM CHECKLIST

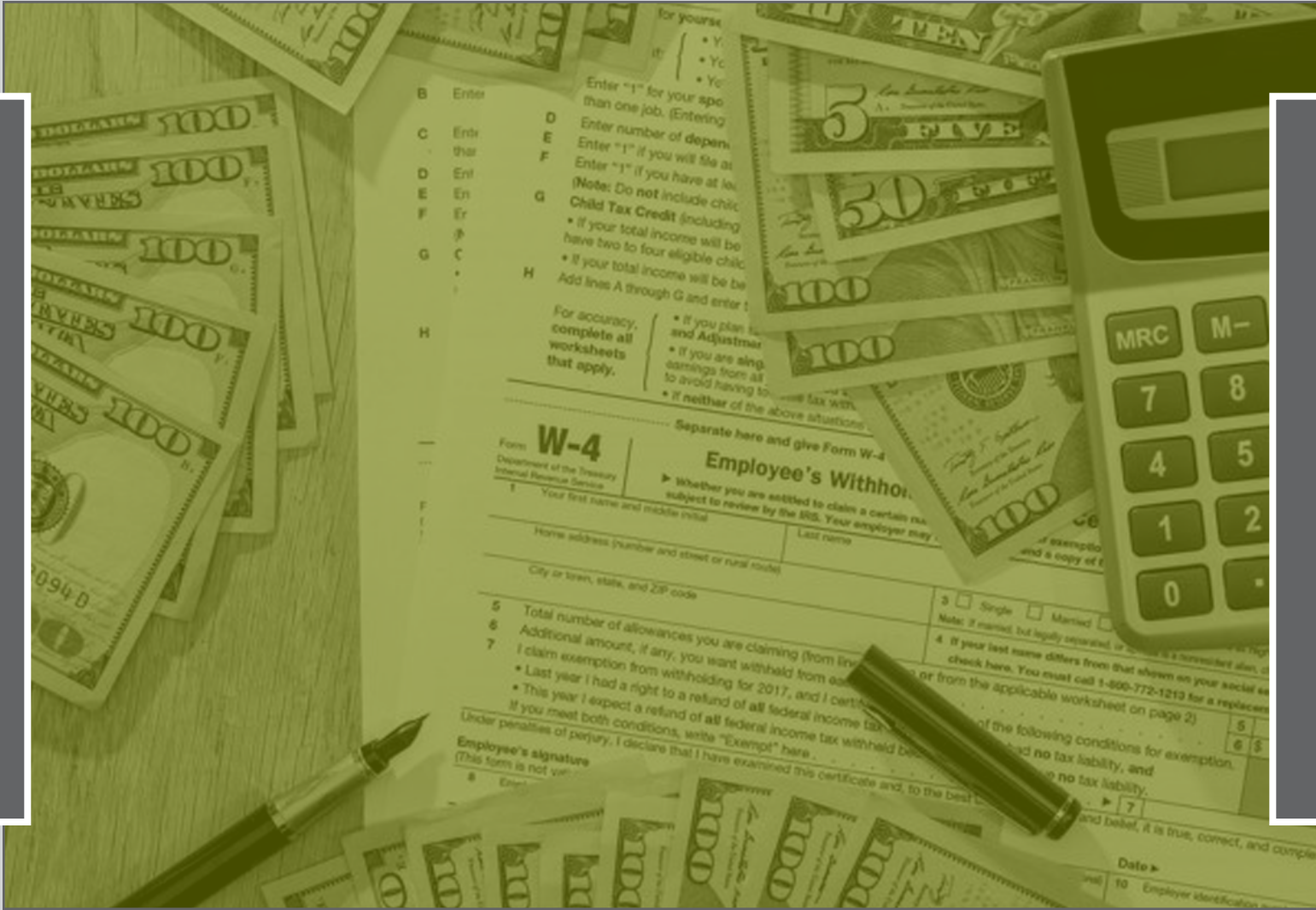
SMALL BUSINESS NEEDS TAX REFORM NOW!

PRINCIPLES OF TAX REFORM

- ✓ **DESIGNED TO TAX ONLY ONCE**
- ✓ **STABLE AND PREDICTABLE**
- ✓ **VISIBLE TO THE TAXPAYER**
- ✓ **SIMPLE IN ITS ADMINISTRATION AND COMPLIANCE**
- ✓ **PROMOTE ECONOMIC GROWTH AND FAIRNESS BETWEEN LARGE & SMALL BUSINESSES**
- ✓ **USE COMMONLY UNDERSTOOD FINANCE ACCOUNTING CONCEPTS**
- ✓ **GROUNDING IN REALITY-BASED REVENUE ESTIMATES**
- ✓ **FAIR IN ITS TREATMENT OF ALL CITIZENS**
- ✓ **TRANSPARENT**

“At the end of the day, NSBA supported the Tax Cuts and Jobs Act—not because it was perfect, but because it was a good start. Lawmakers still have heavy lifting to do, including tax simplification, parity in taxation between large and small businesses, doing away with sunsets and making tax reform permanent, and addressing the deficit.”
—Todd McCracken, NSBA President and CEO

America’s small-business owners have consistently ranked “tax reform” among the top issues for Congress to address. Even with the reforms in the *Tax Cuts and Jobs Act*, more must be done to ensure simplification, fairness and long-term sustainability.



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