
Coalition for Fairness in Tax Compliance

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Small Business Plays an Important Role in the National and Local Economy

- Small business accounts for more than 50% of the gross national product and 99% of employing firms.
 - Over the last decade, small business has created 2/3 of the net new jobs.
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Do Not Separate the Business from the Business Owner

- The small business owner is connected with their small business, both in how the business is structured and the day - to - day operation of the business.
 - Most small businesses - about 75% - are organized as pass through entities – meaning the earnings from the business pass on to the business owner and are taxed at the individual level.
 - These unique characteristic of small businesses impacts the effect that taxes have on the business.
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Tax Complexity is a Major Problem for Small Business

- According to the SBA Office of Advocacy, the cost of tax compliance is 67% higher for small businesses as compared to large businesses. Tax complexity ranks 5th of 75 issues in the 2008 NFIB Small Business Problems and Priorities Poll. (Federal tax rates and property tax rates ranked 3rd and 4th)
 - Unlike a large corporation, small businesses do not have separate finance departments tracking tax changes and keeping the business books. Instead, the owner is generally responsible for tax compliance.
 - This becomes a huge drain on the time and resources of the business owner and takes him away from the day-to-day operation of the business.
 - Tax paperwork is the largest single paperwork burden placed on small business owners at a cost of \$74.24 an hour. (Paperwork and Recordkeeping, NFIB Research Foundation.)
 - This complexity is why 88% of small business owners rely on a paid tax preparer to file their annual tax returns. (Tax Complexity and the IRS, NFIB Research Foundation.)
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Cash Flow is a Concern for All Small Businesses – Taxes Make it Worse

- Cash flow is the money that a business brings in that is used to pay every-day expenses like wages, benefits, and utility bills.
 - Cash flow is a challenge common to all small businesses. One in five small businesses experience a continuing cash flow problem and one in two face a regular cash flow problem.
(The Cash Flow Problem, NFIB Research Foundation.)
 - High tax rates and expensive compliance burdens only make the cash flow problem worse.
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Proposals Addressing Compliance Have Only Made These Problems Worse

- Proposals, such as increased reporting, only makes the problems unique to small business worse.
 - For example, expanding the reporting of transactions through Form 1099 increases the paperwork burden. Expanding withholding provisions – which were included in the merchant card reporting requirements – make the cash flow problem worse.
 - These proposals have not improved compliance, they only improve the ability to audit and enforce.
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Small Business Owners Need Simplification and Certainty

- Simplifying the tax filing burden would reduce the costs of tax compliance – both time and money – and improve the tax compliance rate and among small businesses.
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Cash Accounting Reduces Complexity

- Currently businesses making less than \$5 million may use the simplified cash method of accounting rather than the more complicated accrual method.
 - The cash method more accurately reflects small business expenses and reduces the record keeping and paperwork burden required under the accrual method.
 - Increasing the businesses permitted to use the cash method to those making \$10 million or more would simplify the tax code for many small businesses.
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Expensing Puts Money Back Into the Business and Reduces Complexity

- Section 179 expensing allows a small business to immediately deduct the cost of making an investment in their business.
 - Expensing immediately puts money back into the small business for the investment that the business owner makes rather than spreading the deductions out over a long depreciation schedule.
 - Expensing also reduces tax complexity by eliminating the paperwork and recording keeping burden associated with longer depreciation periods.
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Many Small Businesses Operate from Home Offices

- Nearly 50% of small businesses are home-based, so the home office deduction is important to many businesses.
 - The complexity and fear of an audit associated with the deduction keep many small businesses from claiming it. In addition, the record keeping and paperwork burden associated with the deduction are very high.
 - Providing a standard home office deduction would encourage more small businesses to claim the deduction, reducing their cost of doing business and their tax burden.
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Provide Clarity to Other Confusing Areas of the Code that are Important to Small Business

- The vehicle deduction is an important business expense for most small business, but accounting for the deduction and determining what vehicle qualifies creates confusion and increases the paperwork requirement on business owners.
 - The deduction of a cell phone for business purposes is out-dated and should be updated.
 - A number of provisions in the tax code relate to employee benefits, including retirement planning and health care. These should be simplified and not discriminate against small businesses.
 - For example, an owner of a pass through business cannot exclude the value of health insurance from taxable income as an employee can. Instead the business owner must claim a separate individual deduction, so payroll taxes still apply to the amount of income spent on health insurance. This inequity, and other similar issues relative to employee benefits, should be addressed.
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Small Business Owners Must Plan for the Estate Tax

- Because many small businesses are family-owned, they must plan for the estate tax if they want to keep the business operating after the death or retirement of the owner.
 - Beyond the tax itself, the planning costs associated with the tax are a drain on small business resources. Money spent on planning, means less money for investment and job growth.
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Keep Individual Rates Low

- 75% of small business owners pay their business tax at the individual level because they are organized as pass through entities.
 - Retained earnings- or the money business has after paying taxes- is an important source of financing for small business. Lower rates means small business have access to more of their own capital to support more investment and growth.
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Coalition for Fairness in Tax Compliance

The mission of the Coalition for Fairness in Tax Compliance (CFTC) (www.taxfairnesscompliance.org) is to fight for the rights of tax compliant small business owners by:

- Supporting the accurate use and collection of information on the source, size, and scope of the problem of tax non-compliance that forms the foundation for policy decisions.
 - Supporting targeted, sensible, regulatory and legislative measures that will reduce tax non-compliance without generating undue burdens on the general small business community.
 - Encouraging tax compliance by developing tax simplification proposals for sections of the tax code that are confusing and complicated.
 - Opposing regulatory and legislative strategies proposed by lawmakers in an attempt to increase tax compliance that impose excessive and obtrusive burdens on honest small business owners.
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