



# National Small Business Poll

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## Small Business Poll

*Tax Complexity and the IRS*

# NFIB National Small Business Poll

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The *National Small Business Poll* is a series of regularly published survey reports based on data collected from national samples of small-business employers. Eight reports are produced annually with the initial volume published in 2001. The *Poll* is designed to address small-business-oriented topics about which little is known but interest is high. Each survey report treats different subject matter.

The survey reports in this series generally contain three sections. The first section is a brief Executive Summary outlining a small number of themes or salient points from the survey. The second is a longer, generally descriptive, exposition of results. This section is not intended to be a thorough analysis of the data collected nor to explore a group of formal hypotheses. Rather, it is intended to textually describe that which appears subsequently in tabular form. The third section consists of a single series of tables. The tables display each question posed in the survey broken-out by employee size of firm.

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NFIB National  
Small Business  
Poll



# *Tax Complexity and the IRS*

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# Executive Summary

- Eighty-eight (88) percent of small-employer taxpayers used a tax professional to prepare their most recent federal tax return, including 95 percent of those who employ 20 or more people. Seventy-eight (78) percent also used a tax professional to prepare their most recent state tax return.
- The two reasons small-employer taxpayers most frequently cite for using tax professionals are to assure compliance and the complexity of tax law and related requirements.
- Sixty-one (61) percent of small-employer taxpayers typically consult a tax professional prior to making a major financial decision for the business.
- Though every portion of the 15 major portions of the Internal Revenue Code (and one of the states') evaluated does not impact every small-employer taxpayer, 47 percent think that they do not have a good understanding of even one of the 16 portions; another 17 percent think they have a good understanding of only one; and, yet another 8 percent think they have a good understanding of just two.
- Of the 15 major portions the Federal Tax Code (and one of the states') evaluated, small-employer taxpayers most frequently think that they understand: their state's sales and use tax rules (29% a good understanding), employment/payroll taxes (29%), and expensing (25%). Those portions they claim to understand least frequently include: passive activity rules (7% a good understanding), the Alternative Minimum Tax (7%), and the R&D tax credit (6%).
- Of the 15 major portions the Federal Tax Code (and one of the states') evaluated, the provisions small-employer taxpayers most frequently rely on their tax professional to understand for them are: depreciation (59% rely on a tax professional), methods of accounting (59%), amounts subject to self-employment tax (56%), capital gains/losses (54%), and the Alternative Minimum Tax (53%).
- The most frequently applicable parts of the Code to small-employer taxpayers in their judgment are methods of accounting, depreciation, expensing, employment/payroll taxes, and capital gains/losses.
- The least frequently applicable parts of the Code to small-employer taxpayers in their judgment are corporate dividends, pension plans/profit-sharing, R&D tax credit, home-office deduction, estate and gift tax, and independent contractors.
- Over the last three years, 38 percent of small-employer taxpayers visited the IRS Web site to obtain tax-related information. Visitors' most frequent activity on the site was downloading forms. Of those who visited, 75 percent found the site useful for the intended purpose while 9 percent did not.
- Of the 58 percent who have a basis to judge, 31 percent assess the notices and correspondence they received from the IRS in the last three years to be clear and understandable; 23 percent did not.
- While half of those who have a basis to judge think that IRS penalties levied in the last three years were justified, the other half did not. Still, considering all dealings with the IRS over that time frame, 53 percent of small-employer taxpayers give the IRS a satisfactory or better rating; 9 percent give the agency an unsatisfactory or worse rating.

# Tax Complexity and the IRS

Taxes will remain complicated for business taxpayers as long as they are based on a business's (or business owner's) net income or value. The reasons they will remain complicated are straight-forward: accounting practices are complicated. For example, the seemingly simple concepts of calculating income and when income is realized are anything but, except in the simplest businesses. There is a second reason. The Internal Revenue Code is no longer just a means to raise revenue. It is a vehicle to promote (and penalize) certain economic and/or social behaviors, depending on available resources. With the risk of increased errors and decreased compliance resulting from an overly complex Code, taxpayers are forced to seek outside help. These complexities also increase taxpayer and IRS administrative costs; cause significant frustration and maximize the "we (small business) – they (government)" attitude; and, increase the frequency of tax-induced economic behavior, among other liabilities. This issue of the *National Small Business Poll*, therefore, focuses on Tax Complexity and the IRS.

## Preparing Tax Returns

Eighty-eight (88) percent of small-business taxpayers used a paid tax preparer or accountant to prepare their most recent federal business (or personal with business income on it) tax return (Q#1). The proportion reached 95 percent for owners of businesses large enough to employ 20 people or more. The principal reason most frequently cited for using a tax professional was to assure compliance (47%) (Q#1a). Another 27 percent identified tax laws and requirements as being too complex to do it themselves. The remaining quarter of small employers mentioned various other reasons. However, many of those were tied to complexity, such as the 11 percent who said using a paid tax-preparer is the best way to find the lowest legal tax to pay.

Somewhat fewer used a tax professional to prepare their most recent state tax return. Seventy-eight (78) percent used a tax professional, 10 percentage points lower than the federal (Q#2). Two primary rea-

sons would account for the differential. The first is tax conformity. In many states, preparation of the federal return is tantamount to preparation of a state return. Some owners may choose to use the federal return's information to prepare a similar state return and save tax professional fees. The second reason is that filing a state return in some instances may not be necessary.

Professional tax preparers serve an important function for small-business taxpayers in addition to preparing tax returns. They also advise small employers about the impact of taxes on their business investment decisions. Sixty-one (61) percent of small-employer taxpayers typically consult their tax professional prior to making a major financial decision for the business (Q#3). The proportion rises to 72 percent among those employing 20 people or more. Obviously, most small-business taxpayers think the tax implications are so important and their knowledge of them so limited, they cannot make a major financial decision



without seeking the advice of a tax consultant first.

## Complications in the Code

Small-business owners are affected by many and various provisions in the Internal Revenue Code and its state equivalents. However, not every small business is affected by the same provisions. Some provisions affect more small businesses than others; some provisions are more complex than others, affecting the small-employer taxpayer's financial, advice-seeking, and tax preparation decisions. Small-employer taxpayers were asked to assess the applicability, their knowledge, and/or their reliance on their tax professional regarding the following 15 major portions of the Internal Revenue Code, and one of the States: their method of tax accounting, depreciation, expensing, alternative minimum tax, home-office deduction, pension plans/profit-sharing, capital gains and losses, passive activity rules, employee/payroll taxes, independent contractor rules, business entertainment rules, R&D credit, rules on amounts subject to self-employment tax, corporate dividends, and state sales and use tax. The questions are loosely structured after a survey of small-business owners prepared by the GAO in 2000.

For convenience, the 16 provisions are separated into three groups – the most frequently applicable, the commonly applicable, and the least frequently applicable.

### *a. Frequently Applicable*

Ninety-five (95) percent of small-employer taxpayers think that the depreciation provisions of the Internal Revenue Code apply to them, i.e., they use it at some point. Only two percent are uncertain as to whether depreciation provisions apply to them. (Q#4B). Despite widespread use of depreciation, just 15 percent of small-employer taxpayers think that they have a good understanding of depreciation, at least as it applies to them. Another 15 percent think they have a moderate understanding of depreciation, while 6 percent think they have little understanding of it. The remainder, 59 percent, rely on their tax professional to understand depreciation for them. More small-employer taxpayers rely on their tax professional to understand depreciation for

them than any of the other 15 tax code provisions evaluated in this survey.

Expensing is a simplified form of depreciation specifically enacted to assist small-business taxpayers. However, it is not without complexity and not all items, e.g., structures, can be expensed. That forces many small-businessmen and women to use conventional depreciation provisions of the Code, in addition to expensing provisions. But expensing undoubtedly lowers overall complexity. Small-employer taxpayers evaluate expensing as one of the most easily understood parts of the Code. Twenty-five (25) percent of small-employer taxpayers think that they have a good understanding of expensing – a very high proportion as will subsequently be seen; another 18 percent think they have a moderate understanding; just 5 percent have little or no understanding (Q#4C). Forty-four (44) percent rely on their tax preparer to understand expensing for them, showing a greater understanding of expensing than of depreciation. Ninety-three (93) percent think that the expensing provisions impact them, which is about the same number as those who think the depreciation provisions of the Code impact them.

Ninety-three (93) percent also think the methods of accounting rules apply to them and another three percent do not know (Q#4A). Still, just 16 percent think they have a good understanding of the method of accounting requirements and 12 percent have a moderate understanding, while 59 percent rely on their tax preparer to understand it for them. Given that just 6 percent have little understanding of the accounting methods rules and most are now eligible to use the cash method, it appears that relatively few small-employer taxpayers trip here. The law and rules expanding the eligibility to use cash accounting has been another positive simplification effort in terms of comprehension and record-keeping burdens.

Twenty-nine (29) percent of small-employer taxpayers indicate that they have a good understanding of employment/payroll taxes (Q#4I). Another 15 percent have a moderate understanding and 5 percent have little or none. Still, 45 percent rely on their tax professional to know employment/payroll taxes for them. These taxes appear

among the easier portions of the Code. The foregoing indicates a relatively high level of understanding and relatively low level of dependence on professionals. However, just 91 percent think employment/payroll taxes affect them. Since all respondents to the survey are employers, employment/payroll taxes must be applicable. The only explanations for this contradiction are clarity of the question (some may not realize that FICA and FUTA are payroll taxes) and evasion. Clarity is more likely the explanation since no one argues that the number of employers not paying employment/payroll taxes is close to the nine percent figure.

Capital gains/losses provisions of the Code impact 90 percent of small-business taxpayers (Q#4G). Though calculations for a capital gain/loss can be straight-forward, for example, in the purchase and sale of a publicly traded stock, capital gains/losses associated with smaller businesses are often not simple. Usually, the item giving rise to a capital gain/loss will have been altered or used; also, it may have been depreciated or improved in the process. What is simple in theory, therefore, becomes complex, leaving small-employer taxpayers struggling to understand its tax implications. Fourteen (14) percent think that they have a good understanding of capital gains and losses, another 14 percent a moderate understanding, and 8 percent a poor understanding. But 54 percent rely on their tax preparer to understand it for them. The concept of capital gains/losses is an example of a poorly understood portion of the Code that compels a large proportion of small-employer taxpayers to have a tax professional understand it for them.

#### *b. Common Applicability*

The rules governing the amount of self-employed income subject to self-employment tax are complex, but, the determination can have consequential outcomes. The division of income between salary and return on investment can make a substantial difference in taxes paid. How much should be attributed to one and how much to the other? The decision is arbitrary, though time actually worked in the business and the rate of return play important roles in the determination. Eighty-eight (88) percent think such issues affect them and 1 percent do

not know (Q#4N). Fourteen (14) percent of small-employer taxpayers report a good understanding of self-employment tax, 13 percent a moderate understanding and 5 percent little or none. A relatively large 56 percent rely on their tax professional to understand the rules on amounts subject to self-employment tax.

All but four states have a state sales and use tax. The sales tax was included in the survey because of its similarities across states and because it offers a contrast to the federal tax provisions examined. Though most states that have sales and use taxes exempt a substantial share of services sold, 84 percent of small employers feel the impact of state sales taxes (Q#4O). Whether the issue is complexity or constant exposure to the tax, 29 percent claim to have a good understanding of the rules governing its administration and 13 percent a moderate understanding. Moreover, 47 percent appear to try to understand the rules themselves compared to just 38 percent who rely on their tax preparer to do it for them. The sales and use tax, therefore, appears as one of the less complex parts of tax law that small-employer taxpayers must address.

Relatively few business and/or individual taxpayers must actually pay the Alternative Minimum Tax (AMT). But a rapidly growing number must complete the double calculation to make a determination regarding the necessity to pay the added levy. Eighty-two (82) percent of small-employer taxpayers report that the AMT now affects them while another 6 percent do not know (Q#4D). The 82 percent figure seems high currently, though a number of respondents, in reaction to recent news accounts, may simply think they will soon be affected. A small number, one of the smallest in the survey, claim to have a good understanding of the AMT (7%). Another 11 percent think they have a moderate understanding. Meanwhile, 53 percent rely on their tax preparer to understand the ATM for them.

Rules governing the deductibility of business entertainment have grown more complicated over the years as tax officials have moved to more strictly define acceptable (deductible) business entertainment. The complexity of this issue has centered around the mixture of personal and business benefits that a business owner derives

from entertainment. The significance of these questions from the small-employer taxpayer perspective is that business entertainment can be an important marketing tool. Eighty-three (83) percent indicate that rules governing business entertainment apply to them (Q#4L). Of that number, small-employer taxpayers are split almost evenly between those who do and do not rely on their tax professional to know this part of the Code for them. Forty-three (43) percent rely on themselves and 41 percent on tax professionals. Sixteen (16) percent of those who rely on themselves think they have a good understanding of the rules governing business entertainment and 18 percent think they have a moderate understanding of them.

The tax rules distinguishing independent contractors from employees have drawn persistent complaints from just about everyone involved. The legal distinction is not clear and involves over 20 separate tests and circumstances. That raises the question of whether most tax professionals, who may not know a firm's situation, are in any better position to give tax advice than the owner is to rely on his own judgment. Just 30 percent rely on their tax preparer to understand the provisions for them and 44 percent do not, the fewest of any of the 16 tax provisions examined (Q#4J). One reason for the relative non-use of tax professionals to understand independent contractor rules could be their frequent use of independent contractors in the business's operations. When owners use independent contractors frequently, they use them in circumstances that tend to be similar. When the experience is repetitious, there is no need to keep checking whether the relationship crosses the line. The rules governing independent contractor status is one area of tax law and regulation that is ripe for simplification.

### *c. Least Frequently*

Repeal of the estate and gift tax has been a politically controversial issue over the last few years. But even opponents concede that many administrative and behavior-distorting complexities are currently associated with it. In fact, complexity was a primary argument for repeal. Most small-business owners are not likely to ever pay the estate and gift tax and a relatively large 24 per-

cent do not think they are impacted by it (Q#4K). Because estate and gift tax is part of the entire estate planning process, it is unlikely that virtually anyone who might be affected would handle the details themselves. However, 33 percent rely on themselves to understand the estate and gift tax while 41 percent rely on a tax professional. And, those who rely on themselves admittedly do not understand it very well. Just 9 percent think they have a good understanding of estate and gift taxes and 14 percent think they understand it moderately. The most likely reason for this distribution between self and tax professional is that many young business owners have not focused on estate planning.

About one in four small, employing businesses is home-based. That means their primary business location is in the home, basement, adjoining building, etc. On-premise expenses related to conduct of the business are typically deductible under these circumstances, with important caveats. But, the home office deduction can also be claimed by business people whose principal place of business is not in the home. Thirty-three (33) percent of small-employer taxpayers try to understand the tax rules governing home offices themselves and about half of that number think they have a good understanding of them (Q#4E). However, 41 percent still rely on their tax preparer for such information. Twenty-four (24) percent say the rules do not affect them, a relatively high frequency for the response.

The R&D tax credit typically applies to larger firms. It is, therefore, not an item most small-business taxpayers have a keen interest in. Thirty (30) percent say the credit does not affect them, nearly the largest proportion for any tax item in the survey (Q#4M). Of the 24 percent who do not rely on their tax preparer to understand the credit for them, virtually half (11%) have little understanding of it though 6 percent have a good understanding. Forty (40) percent rely on their tax preparer.

The passive income tax provisions in the Code and their implementing rules are among the most obscure and non-intuitive that small-business taxpayers encounter. In fact, while 20 percent report passive activity rules do not affect them, 15 percent do not know (Q#4H). No other part of tax

law examined here remotely approaches the level of uncertainty surrounding its applicability. Adding the 20 percent who deem the provisions non-applicable to them to the 15 percent who are uncertain yields the smallest portion of small-employer taxpayers in the survey who either try to understand the provisions themselves or leave it to a professional. Just 22 percent indicate they try to understand the rules themselves, the fewest of any of the 16 portions evaluated. Of that number almost half -- 10 percentage points -- confess they have little understanding of passive activity rules. Forty-three (43) percent rely on their tax preparer.

### Reliance on Tax Professional

Few small-employer taxpayers claim that they have a good understanding of more than a handful of the major tax provisions that affect them. Forty-seven (47) percent think that they do not have a good understanding of even one of the 16 tax code provisions evaluated; 17 percent think they have a good understanding of one; and, another 8 percent think they have a good understanding of two. That means over 70 percent have a good understanding of only two or fewer of the major tax provisions that impact them. Not all of the 16 tax provisions examined affect every small-employer taxpayer. An average of almost 20 percent claim that their firms either are not impacted by a provision or do not know if they are or not. But even recognizing that everyone is not impacted by every tax provision evaluated, small-employer taxpayers admit they know comparatively little about relevant provisions of the Internal Revenue Code (and state sales and use tax) and the rules that implement it.

Twenty-three (23) percent of small-employer taxpayers do not rely on tax professionals for anything except completing their tax returns (and many of this group do their own tax returns as well). It is likely that these businesses are structurally and financially among the simplest and the least able to afford professional tax assistance. It is also likely that there are a small number of tax professionals in the sample who fall in this category. Yet, the concentration of small-employer taxpayers who rely on tax professionals for knowledge on no part of the Code suggests that the remainder rely

on tax professionals even more than might first appear.

Forty (40) percent of small-employer taxpayers report that they rely on tax professionals to know tax law and rules for them on 10 or more of the tax provisions examined. They effectively shift responsibility for knowledge of tax to their tax professional. Some shift may make sense considering relevant parts of the Code may only be relevant sporadically, but many have given up. They have surrendered to the tax code.

### Forms of Small-Employer Taxpayers

Text books list many reasons why one legal form of business might be preferable to another, but virtually all begin with taxes and liability. In fact, the choice of legal form has substantial tax implications for the small-employer taxpayer. Since the Tax Reform Act (TRA) of 1986, the Sub-chapter S corporate form of business has flourished and become the prevalent legal form for small, employing businesses. Thirty-two (32) percent of small-employing businesses are now S-corporations (Q#12). The long dominant proprietorship remains the legal form of choice for 20 percent of small employers, though it is the overwhelming choice of those that are self-employed with no employees. Nineteen (19) percent are C-corporations, the traditional corporate form, and another 17 percent are Limited Liability companies (LLCs). The latter are not recognized by federal tax authorities and pay taxes as partnerships. Six percent are actual partnerships. The remainder are unspecified.

### Information from the IRS

The Internal Revenue Service (IRS) is responsible for helping taxpayers understand their obligations under the law as well as interpreting (through regulation and advisory letter) and administering it. As a result, IRS understands that those small-employer taxpayers (and other taxpayers for that matter) often have questions that may require immediate and/or somewhat detailed resolution. The agency also recognizes that providing such information electronically is a cost-effective and rapid means compared to direct personal response and skirts the

embarrassment, if not the liability, of agency personnel providing wrong answers. IRS has, therefore, put considerable effort, expense, and prestige into its Web site.

Prospects for success in this regard among the small-business population appear promising, though personal attention is typically more attractive from the customer's perspective. Thirty-eight (38) percent of small-employer taxpayers attempted to obtain tax-related information from the IRS Web site in the last three years (Q#5). They reached into several parts and functions of the site when visiting. Seventy-two (72) percent who visited [www.irs.gov](http://www.irs.gov) used it to download forms, the single most frequent use (Q#5aA). Sixty (60) percent of small-business taxpayers who visited in the last three years obtained instructions to complete a particular tax form (Q#5aB). Fifty-eight (58) percent of small-business employer visitors used it to understand a particular provision or aspect of the Code (Q#5aC); 41 percent to locate general information on penalties, notices, discrepancies, etc. (Q#5aF); 41 percent to determine filing requirements (Q#5aE); and 37 percent to obtain electronic filing instructions (Q#5aD).

Most small-business taxpayers who visited the IRS Web site thought it was useful. When asked to consider what they wanted from the site and what they were able to obtain from it, 37 percent evaluate the site as "very useful" and another 38 percent as "useful" (Q#5b). Eight percent think differently and 14 percent offer a middling evaluation. While the numbers are not strikingly positive given the typical favorable nature of response to similar inquiries elsewhere, they do indicate many small-business taxpayers are well serviced by the site.

Ways have been suggested to improve the site for small-business taxpayer users. One far-reaching suggestion is to place the tax deposit and payment records of small-business taxpayers in a password protected part of the site. Small employers could then log in and review their deposit and payment records as recorded by the IRS at any time. Owners could then determine if their records differed from IRS's, etc., and possibly avoid a penalty. Small employers are split on the idea with a majority against. Forty-five (45) percent favor it and 52 per-

cent oppose it (Q#7). The feeling on both sides is strong. Thirty (30) percent strongly support the idea while 38 percent strongly oppose it. No follow-up question asked the reason for their views. However, it is likely that one group lines up on the side of efficiency and the other on the side of privacy.

Fewer use the toll-free telephone number. Results from the telephone seem less satisfactory than the Web site, though it is possible more difficult inquiries are initiated over the telephone. Twenty-four (24) percent report requesting tax-related information on the toll-free line (Q#6). Of that number, 36 percent of small-business taxpayers found the service "very useful" and another 28 percent "useful." Eighteen (18) percent responded with negative evaluations and 17 percent's opinion fell in the middle.

## IRS Performance

The Internal Revenue Service suffered public humiliation in the mid-1990s when a Senate investigation spotlighted numerous cases of the agency abusing taxpayers. While recognizing that IRS's primary responsibility is to enforce an often unpopular set of laws, the agency must recognize that a tax system heavily rooted in voluntary compliance requires carrots as well as sticks. The following reflects the views of small-business taxpayers on various aspects of IRS performance a decade or so after the changes to correct spotlighted problems began.

Most small-business taxpayer dealings with the IRS in the last three years have been satisfactory. While one-quarter (24%) have no basis to judge (likely no direct dealings with IRS in that time interval), 45 percent report their dealings generally satisfactory and another 8 percent term them "very satisfactory" (Q#11). In contrast, 9 percent judge them as unsatisfactory. Interpretation of these numbers is difficult considering the lack of a baseline for comparative purposes. However, a 5 - 1 positive margin of an agency with the responsibilities of the IRS seems encouraging.

One point of potential contention between small-business taxpayers and the IRS is fines and penalties. The question is whether the former considers the latter's penalties justified. Fifty-five (55) percent responded that they had no basis to judge (Q#10). But of those qualified to answer,



20 percent think the fines levied were justified and 20 percent think they were not. In some instances, the law rather than the agency may be ultimately responsible for penalties levied; the agency has little or no discretion in the matter. Still, 10 percentage points more think the IRS penalties justified than had unsatisfactory dealings with the agency. That group might not have agreed that a penalty was justified, but the disagreement did not carry over into their overall assessment of the IRS.

A more pleasant side of the relationship between small-business taxpayers and the IRS is refunds. Fifty-eight (58) percent judge refunds in the last three years to have been distributed in a timely fashion while 6 percent disagree with that assessment (Q#9). Thirty-three (33) percent have had no experience in that time frame.

Another aspect of tax administration is notices and various types of correspondence and communication. Are they clear and understandable to taxpayers? The small-business verdict on this question is mixed. While 41 percent report no basis on which to judge, a net 8 percent give the IRS positive marks (Q#8). Thirty-one (31) percent say agency communications are clear and understandable. Yet, 23 percent say they are not. Further detail would be necessary to draw any conclusion. But, the raw numbers suggest that the clarity of communication is an area that may need agency attention.

## Final Comments

Small-employer taxpayers find the Internal Revenue Code complex and have virtually surrendered any claim to understanding their taxes to tax professionals. Many no longer even try, though that observation is more impression than data driven. About one in four continue to attempt to understand relevant parts of the Code themselves. That is likely due to the expense of tax professionals, but even then, half of them have a professional prepare their returns. A small percentage of small employers say that they have a good understanding of a few major portions of relevant tax law and rules. The provisions most frequently cited in this regard also appear to be the simplest and presumably the most applicable. But most small-business taxpayers rely on tax profes-

sionals to understand tax law and rules for them most of the time.

The data for this survey were gathered during the initial stages of the debate surrounding the so-called “tax gap,” that is, the amount of tax revenues federal authorities estimate that it should collect and the amount it actually does. IRS has identified points in the economy most likely to contribute to the gap. Many of these points involve small businesses and small-business owners. But it is irrational to discuss the tax gap without looking at tax complexity. The reason is that complexity breeds mistakes and mistakes swell the gap.

A related issue is use of the Tax Code for economic or social stimulus. If small-employer taxpayers do not understand the basics of tax law, how can policy-makers expect them to be responsive to it, at least in the near-term? One cannot react to tax policy that one does not know exists. Over time, tax professionals likely will transmit some level of awareness about the presence of various tax stimuli to small-employer taxpayers and they will respond. The question is, how long does that process take? Thus, complexity undermines some part of the economic and social objectives the Code attempts to promote.

The IRS seems to be the positive note on which to end these observations. Without a benchmark, it is difficult to compare today’s IRS with the agency that existed 10 or even 20 years ago. But it is not difficult to remember that relations between small business and the IRS were strained. While it is inevitable that relations between the two can never be more than mutually respectful, small-business taxpayers think that their association with the agency over the last few years has been generally favorable. That is important because IRS can play a hugely positive role both in terms of using its regulatory powers to simplify tax rules and using its authority to explain tax complexities to the extent practicable to American small-business owners.

# Tax Complexity and the IRS

(Please review notes at the table's end.)

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
<b>I. Did you use a paid preparer or accountant to prepare your most recent federal tax returns on business income?</b>				
1. Yes	86.4%	94.3%	94.7%	88.0%
2. No	12.6	4.6	5.3	11.1
3. (DK/Refuse)	0.9	1.1	—	0.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751
<b>Ia. Which best describes the principal reason you used a preparer or accountant? (If used paid tax preparer/accountant in Q#1.)</b>				
1. More cost-effective than to do it myself	4.3%	7.4%	2.9%	4.6%
2. I don't understand how to complete the forms	4.9	2.5	1.4	4.3
3. Tax laws and requirements are too complex to do it myself	27.1	28.4	23.2	26.9
4. Would rather rely on a tax professional to assure compliance	46.3	44.4	53.6	46.8
5. Tax professional most likely to find the lowest legal amount of tax	11.4	11.1	8.7	11.1
6. (Other)	2.2	3.7	1.6	2.2
7. All	3.1	2.5	7.2	3.4
8. (DK/Refuse)	0.7	—	1.4	0.7
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	301	186	187	674
<b>2. Did you use a paid preparer or accountant to prepare your most recent state tax return on business income?</b>				
1. Yes	75.5%	86.2%	85.7%	77.6%
2. No	18.9	9.2	6.5	16.6
3. (No state business income tax)	4.8	4.6	5.2	4.8
4. (DK/Refuse)	0.8	—	2.6	0.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**3. Do you typically consult a tax professional prior to making a major financial decision for the business to determine its tax implications?**

1. Yes	58.7%	69.3%	72.0%	61.1%
2. No	39.7	29.5	28.0	37.5
3. (DK/Refuse)	1.6	1.1	—	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**4. I am going to list several provisions of the Federal tax code that may apply to your business. Please tell me if you have a good understanding of the provision, a moderate understanding, little understanding, or you rely on your tax preparer to understand the provision for you. If the tax provision does not apply to your business, just say so.**

**A. Method of tax accounting**

1. Good understanding	15.6%	19.8%	14.3%	15.9%
2. Moderate understanding	12.0	10.5	14.3	12.1
3. Little understanding	5.8	5.8	6.5	5.8
4. Rely on tax preparer to understand for me	58.8	60.5	61.0	59.2
5. Does not apply	4.4	2.3	2.6	4.0
6. (DK/Refuse)	3.5	1.2	1.3	3.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**B. Depreciation**

1. Good understanding	13.9%	17.2%	20.0%	14.8%
2. Moderate understanding	15.1	16.1	16.0	15.3
3. Little understanding	7.0	2.3	4.0	6.2
4. Rely on tax preparer to understand for me	59.0	62.1	56.0	59.0
5. Does not apply	3.4	2.3	1.3	3.1
6. (DK/Refuse)	1.6	—	2.7	1.5
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751



	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

### C. Expensing

1. Good understanding	24.3%	33.0%	26.0%	25.4%
2. Moderate understanding	18.4	15.9	16.9	18.0
3. Little understanding	6.2	4.5	3.9	5.8
4. Rely on tax preparer to understand for me	44.2	42.0	45.5	44.1
5. Does not apply	5.3	3.4	3.9	5.0
6. (DK/Refuse)	1.6	1.1	3.9	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### D. Alternative Minimum Tax (AMT)

1. Good understanding	6.9%	5.8%	8.1%	6.9%
2. Moderate understanding	12.5	5.8	6.8	11.2
3. Little understanding	10.1	12.8	9.5	10.4
4. Rely on tax preparer to understand for me	52.3	55.8	56.8	53.1
5. Does not apply	11.7	14.0	13.5	12.1
6. (DK/Refuse)	6.6	5.8	5.4	6.4
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### E. Home office deduction rules

1. Good understanding	16.4%	12.6%	10.7%	15.4%
2. Moderate understanding	12.5	12.6	12.0	12.5
3. Little understanding	5.3	5.7	8.0	5.6
4. Rely on tax preparer to understand for me	42.3	31.0	36.0	40.5
5. Does not apply	21.7	36.8	32.0	24.3
6. (DK/Refuse)	1.9	1.1	1.3	1.7
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### F. Pension plans/Profit-sharing

1. Good understanding	8.6%	19.3%	11.8%	10.1%
2. Moderate understanding	14.5	17.0	17.1	15.0
3. Little understanding	8.4	5.7	10.5	8.3
4. Rely on tax preparer to understand for me	34.0	34.1	42.1	34.8
5. Does not apply	33.5	21.6	17.1	30.7
6. (DK/Refuse)	0.9	2.3	1.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

### G. Capital gains and losses

1. Good understanding	14.3%	14.9%	14.7%	14.2%
2. Moderate understanding	13.9	14.9	18.7	14.4
3. Little understanding	7.6	9.2	6.7	7.7
4. Rely on tax preparer to understand for me	54.4	52.9	53.3	54.2
5. Does not apply	9.2	8.0	6.7	8.8
6. (DK/Refuse)	0.8	—	—	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### H. Passive activity rules

1. Good understanding	6.7%	5.7%	5.3%	6.5%
2. Moderate understanding	4.7	5.7	10.5	5.3
3. Little understanding	10.4	10.3	10.5	10.4
4. Rely on tax preparer to understand for me	41.4	49.4	48.7	43.0
5. Does not apply	20.9	14.9	15.8	19.8
6. (DK/Refuse)	15.9	13.8	9.2	15.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### I. Employment/Payroll taxes

1. Good understanding	25.1%	33.0%	30.7%	28.5%
2. Moderate understanding	14.5	17.0	16.0	14.9
3. Little understanding	5.0	2.3	4.0	4.6
4. Rely on tax preparer to understand for me	45.1	44.3	45.3	45.0
5. Does not apply	9.7	3.4	2.7	8.3
6. (DK/Refuse)	0.6	—	1.3	0.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### J. Independent contractor rules

1. Good understanding	19.8%	23.0%	21.3%	20.3%
2. Moderate understanding	17.2	11.5	12.0	16.1
3. Little understanding	7.6	6.9	10.7	7.8
4. Rely on tax preparer to understand for me	26.6	32.2	36.0	30.5
5. Does not apply	23.6	23.0	20.0	23.2
6. (DK/Refuse)	2.2	3.4	—	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**K. Estate and gift tax rules**

1. Good understanding	8.7%	12.5%	12.0%	9.4%
2. Moderate understanding	14.2	11.4	13.3	13.8
3. Little understanding	10.0	9.1	10.7	9.9
4. Rely on tax preparer to understand for me	40.7	43.2	42.7	41.1
5. Does not apply	25.1	22.7	20.0	24.3
6. (DK/Refuse)	1.4	1.1	1.3	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**L. Business entertainment rules**

1. Good understanding	14.2%	20.5%	21.3%	15.5%
2. Moderate understanding	17.5	18.2	17.3	17.5
3. Little understanding	9.7	4.5	6.7	8.8
4. Rely on tax preparer to understand for me	40.4	39.8	42.7	40.5
5. Does not apply	16.8	17.0	10.7	16.3
6. (DK/Refuse)	1.4	—	1.3	1.3
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**M. R & D credit**

1. Good understanding	5.6%	9.2%	5.3%	6.0%
2. Moderate understanding	6.6	4.6	7.9	6.5
3. Little understanding	11.4	10.3	11.8	11.3
4. Rely on tax preparer to understand for me	40.1	39.1	42.1	40.2
5. Does not apply	29.5	34.5	28.9	30.0
6. (DK/Refuse)	6.9	2.3	3.9	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**N. Rules on amounts subject to self-employment tax**

1. Good understanding	13.7%	15.9%	12.0%	13.8%
2. Moderate understanding	13.6	9.1	9.3	12.7
3. Little understanding	5.1	5.7	6.7	5.3
4. Rely on tax preparer to understand for me	56.2	52.3	57.3	55.8
5. Does not apply	10.5	15.9	13.3	11.3
6. (DK/Refuse)	0.9	1.1	1.3	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**O. Your state's sales tax rules**

1. Good understanding	27.6%	36.8%	28.0%	28.6%
2. Moderate understanding	13.2	12.6	14.7	13.3
3. Little understanding	4.7	2.3	5.3	4.5
4. Rely on tax preparer to understand for me	37.5	34.5	42.7	37.7
5. Does not apply	16.0	13.8	9.3	15.2
6. (DK/Refuse)	0.9	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**P. Corporate dividends**

1. Good understanding	10.0%	10.3%	12.0%	10.2%
2. Moderate understanding	9.2	8.0	12.0	9.3
3. Little understanding	6.9	8.0	8.0	7.1
4. Rely on tax preparer to understand for me	37.4	43.7	42.7	38.6
5. Does not apply	35.2	28.7	24.0	33.5
6. (DK/Refuse)	1.4	1.1	1.3	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**5. Over the last three years, have you attempted to obtain tax-related information from the IRS Web site?**

1. Yes	39.4%	35.2%	30.0%	38.1%
2. No	60.4	64.8	68.4	61.7
3. (DK/Refuse)	0.2	—	1.3	0.2
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**5a. For what purposes did you use the IRS Web site? (If “Yes” in Q#5.)**

**A. Download tax forms**

1. Yes	71.9%	74.2%	65.2%	71.7%
2. No	27.3	25.8	34.8	27.7
3. (DK/Refuse)	0.8	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**B. Obtain instructions about completing a particular tax form**

1. Yes	58.1%	71.0%	63.3%	59.8%
2. No	41.9	29.0	36.4	40.2
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

**C. Understand a particular part of the federal tax**

1. Yes	56.7%	71.0%	52.2%	57.8%
2. No	42.5	29.0	47.8	41.5
3. (DK/Refuse)	0.8	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

**D. Obtain electronic filing instructions**

1. Yes	36.9%	36.7%	31.8%	36.5%
2. No	62.3	63.3	68.2	62.8
3. (DK/Refuse)	0.8	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

**E. Learn about filing requirement issues, such as who must file, when, etc.**

1. Yes	38.5%	56.7%	40.9%	40.5%
2. No	61.5	43.3	59.1	59.5
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

**F. Locate general information on penalties, notices, discrepancies, etc.**

1. Yes	39.5%	50.0%	45.5%	41.0%
2. No	59.3	50.0	54.5	58.0
3. (DK/Refuse)	1.2	—	—	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	140	70	61	271

**5b. Considering the tax-related information you wanted and the tax-related information you found, did you find the IRS Web site very useful, somewhat useful, so-so, not very useful, not at all useful?**

1. Very useful	36.1%	40.0%	47.8%	37.4%
2. Somewhat useful	38.5	40.0	26.1	37.7
3. So-so	14.7	13.3	13.0	14.4
4. Not very useful	4.8	3.3	8.7	4.9
5. Not at all useful	4.0	3.3	—	3.6
6. (DK/Refuse)	2.0	—	4.3	2.0
Total	100.0%	100.0%	100.0%	100.0%
N				

**6. Over the last three years, have you used IRS's toll-free telephone number to request tax-related information?**

1. Yes	23.4%	28.7%	22.4%	23.9%
2. No	76.1	71.3	76.3	75.6
3. (DK/Refuse)	0.5	—	1.3	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**6b. Considering the tax-related information you wanted and the tax-related information you found, did you find the IRS toll-free number very useful, somewhat useful, so-so, not very useful, not at all useful? (If "Yes" in Q#6.)**

1. Very useful	36.4%	32.0%	—%	36.2%
2. Somewhat useful	27.2	36.0	—	28.0
3. So-so	18.5	12.0	—	17.1
4. Not very useful	6.0	16.0	—	7.8
5. Not at all useful	11.3	4.0	—	10.4
6. (DK/Refuse)	0.7	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	87	59	46	192

**Employee Size of Firm**  
**1-9 emp    10-19 emp    20-249 emp    All Firms**

**7. As a general rule, would you like to have your business's tax deposit and payment records online to determine if your tax records match the IRS's? The information would be password protected. Do you hold that view strongly or not so strongly?**

1. Yes, strongly	29.7%	31.4%	25.6%	29.5%
2. Yes, not so strongly	12.9	23.5	18.6	14.6
3. Yes, undecided intensity	0.6	2.0	2.3	0.9
4. No, undecided intensity	0.6	—	—	0.6
5. No, not so strongly	13.7	9.8	18.6	13.7
6. No, strongly	40.6	25.5	27.9	37.6
7. (DK/Refuse)	2.0	7.8	7.0	3.1
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>351</b>	<b>200</b>	<b>200</b>	<b>751</b>

**8. Would you strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree that in the last three years IRS notices and other correspondence have been clear and understandable. If you have no basis to judge, just say so.**

1. Strongly agree	6.2%	6.8%	6.7%	6.3%
2. Agree	24.2	25.0	28.0	24.6
3. Neither agree nor disagree	4.4	4.5	4.0	4.4
4. Disagree	12.6	18.2	10.7	13.1
5. Strongly disagree	10.0	10.2	9.3	10.0
6. No basis to judge	41.7	34.1	40.0	40.7
7. (DK/Refuse)	1.0	1.1	1.4	1.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>351</b>	<b>200</b>	<b>200</b>	<b>751</b>

**9. Would you strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree that in the last three years the IRS distributed refunds in a timely manner. If you have no basis to judge, just say so.**

1. Strongly agree	12.5%	14.8%	15.8%	13.0%
2. Agree	46.2	43.2	34.2	44.7
3. Neither agree nor disagree	2.8	1.1	—	2.4
4. Disagree	2.8	5.7	3.9	3.2
5. Strongly disagree	2.8	—	2.6	2.5
6. No basis to judge	32.3	33.0	40.8	33.2
7. (DK/Refuse)	0.6	2.3	2.6	1.0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>N</b>	<b>351</b>	<b>200</b>	<b>200</b>	<b>751</b>

**10. Would you strongly agree, agree, neither agree nor disagree, disagree, or strongly disagree that in the last three years IRS penalties levied were justified. If you have no basis to judge, just say so.**

1. Strongly agree	4.0%	4.5%	2.6%	4.0%
2. Agree	15.6	15.9	14.5	15.5
3. Neither agree nor disagree	2.5	2.3	2.6	2.5
4. Disagree	9.8	9.1	9.2	9.7
5. Strongly disagree	10.9	10.2	6.6	10.4
6. No basis to judge	54.4	56.8	61.8	55.3
7. (DK/Refuse)	2.8	1.1	2.6	2.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**11. Consider any and all dealings you have had with the IRS over the last three years. Have they been very satisfactory, generally satisfactory, neither satisfactory nor unsatisfactory, generally unsatisfactory, or very unsatisfactory. If you have no basis to judge, just say so.**

1. Very satisfactory	7.3%	10.3%	6.6%	7.6%
2. Generally satisfactory	44.8	48.3	42.1	45.0
3. Neither satisfactory nor unsatisfactory	14.2	5.7	13.2	13.2
4. Generally unsatisfactory	3.0	9.2	5.3	3.9
5. Very unsatisfactory	5.3	5.7	3.9	5.2
6. No basis to judge	24.7	19.5	27.6	24.4
7. (DK/Refuse)	0.6	1.1	1.3	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**12. What is your legal form of business. Is it a?:**

1. Proprietorship	23.4%	8.0%	6.7%	20.2%
2. Partnership	5.8	3.4	8.0	5.7
3. S-corporation	30.1	43.7	37.3	32.2
4. C-corporation	16.7	29.9	28.0	19.2
5. LLC	18.4	9.2	14.7	17.1
6. (DK/Refuse)	5.6	5.7	5.3	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751



## Demographics

### D1. Which best describes your position in the business?

1. Owner/manager	87.4%	87.5%	78.9%	86.6%
2. Owner, but NOT manager	4.4	3.4	3.9	4.2
3. Manager, but NOT owner	8.3	9.1	17.1	9.2
4. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

### D2. Is your primary business activity: (NAICs code)

1. Agriculture, forestry, fishing	4.8%	2.4%	3.9%	4.5%
2. Construction	8.7	11.9	9.1	9.1
3. Manufacturing, mining	8.6	8.3	13.0	9.0
4. Wholesale trade	10.0	4.8	3.9	8.8
5. Retail trade	11.1	14.3	14.3	11.7
6. Transportation and warehousing	0.2	—	—	0.1
7. Information	4.2	—	2.6	3.6
8. Finance and insurance	6.4	1.2	3.9	5.6
9. Real estate and rental/leasing	5.0	1.2	5.2	4.6
10. Professional/scientific/ technical services	13.2	14.3	6.5	12.7
11. Admin. support/waste management services	4.5	4.8	3.9	4.5
12. Educational services	0.8	1.2	—	0.7
13. Health care and social assistance	3.1	3.6	5.2	3.4
14. Arts, entertainment or recreation	2.6	1.2	2.6	2.5
15. Accommodations or food service	4.4	17.9	16.9	7.0
16. Other service, incl. repair, personal service	10.9	9.5	3.9	10.1
17. Other	—	—	—	—
18. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D3. Over the last two years, have your real volume sales:?**

1. Increased by 30 percent or more	11.4%	13.6%	13.2%	11.8%
2. Increased by 20 to 29 percent	7.2	8.0	7.9	7.3
3. Increased by 10 to 19 percent	26.7	37.5	25.0	27.7
4. Increased by < 10 percent	21.1	19.3	28.9	21.6
5. Decreased by < 10 percent	7.6	8.0	7.9	7.7
6. Decreased by more than 10 percent	19.8	9.1	11.8	17.9
7. (DK/Refuse)	6.2	4.5	5.2	6.0
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D4. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?**

1. Yes	34.1%	6.8%	9.2%	28.7%
2. No	64.4	93.2	89.5	69.9
3. (DK/Refuse)	1.6	—	1.3	1.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D5. How long have you operated this business?**

1. < 6 years	26.2%	14.9%	18.9%	24.3%
2. 6 – 10 years	19.8	19.5	18.9	19.7
3. 11 – 20 years	24.0	32.2	24.3	24.9
4. 21 – 30 years	18.5	23.0	20.3	19.2
5. 31 + years	10.6	10.3	16.2	11.1
6. (DK/Refuse)	1.0	—	1.4	0.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D6. What is your highest level of formal education?**

1. < H.S.	2.5%	2.3%	1.3%	2.4%
2. H.S. diploma/GED	19.1	13.8	20.0	18.6
3. Some college or associate's degree	23.9	24.1	21.3	23.7
4. Vocational or technical school degree	3.1	2.3	4.0	3.1
5. College diploma	31.7	34.5	36.0	32.4
6. Advanced or professional degree	18.8	23.0	16.0	19.0
7. (DK/Refuse)	0.9	—	1.3	0.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms

**D7. Please tell me your age**

1. <25 years	0.2%	—%	1.3%	0.2%
2. 25 – 34 years	7.2	3.4	6.6	6.7
3. 35 – 44 years	17.0	14.6	19.7	17.0
4. 45 – 54 years	28.5	39.3	31.6	30.0
5. 55 – 64 years	31.2	31.5	25.0	30.6
6. 65+ years	12.0	11.2	14.5	12.2
7. (Refuse)	3.9	—	1.3	3.2
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D8. What is the zip code of your business?**

1. East (zips 010-219)	20.7%	20.7%	16.0%	20.3%
2. South (zips (220-427)	19.5	25.3	14.7	19.7
3. Mid-West (zips 430-567, 600-658)	23.7	20.7	28.0	23.8
4. Central (zips 570-599, 660-898)	22.3	21.8	21.3	22.2
5. West (zips 900-999)	12.0	11.5	16.0	12.3
6. (DK/Refuse)	1.7	—	4.0	1.7
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D9. Urbanization (Derived from zip code.)**

1. Highly Urban	8.4%	17.2%	13.2%	9.8%
2. Urban	17.3	16.1	14.5	16.9
3. Fringe Urban	17.9	21.8	21.1	18.6
4. Small Cities/Towns	24.9	23.0	18.4	24.1
5. Rural	24.8	23.0	18.4	24.1
6. (DK/Refuse/Not classified)	6.7	2.3	9.2	6.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

Employee Size of Firm  
 1-9 emp    10-19 emp    20-249 emp    All Firms

**D10. Compared to your competitors over the last three years, do you think the overall performance of your business in terms of sales and net profits makes it a:?**

1. High performer	10.8%	20.7%	22.1%	12.9%
2. Somewhat high performer	22.0	26.4	22.1	22.5
3. Moderate performer	43.3	41.4	41.6	42.9
4. Somewhat low performer	5.3	3.4	1.3	4.7
5. Low performer	12.3	5.7	9.1	11.3
6. (Haven't been in business three years)	0.8	—	1.3	0.7
7. (DK/Refuse)	5.5	2.3	2.6	4.9
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**D11. Sex**

1. Male	82.9%	86.4%	82.7%	83.2%
2. Female	17.1	13.6	17.3	16.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	200	200	751

**Table Notes**

1. All percentages appearing are based on **weighted** data.
2. All "Ns" appearing are based on **unweighted** data.
3. Data are not presented where there are fewer than 50 unweighted cases.
4. ( )s around an answer indicate a volunteered response.

**WARNING** – When reviewing the table, care should be taken to distinguish between the percentage of the population and the percentage of those asked a particular question. Not every respondent was asked every question. All percentages appearing on the table use the number asked the question as the denominator.

# Data Collection Methods

The data for this survey report were collected for the NFIB Research Foundation by the executive interviewing group of The Gallup Organization. The interviews for this edition of the *Poll* were conducted between December 28, 2006 - January 24, 2007 from a sample of small employers. “Small employer” was defined for purposes of this survey as a business owner employing no fewer than one individual in addition to the owner(s) and no more than 249.

The sampling frame used for the survey was drawn at the Foundation’s direction from the files of the Dun & Bradstreet Corporation, an imperfect file but the best currently available for public use. A random stratified sample design is typically employed to compensate for the highly

skewed distribution of small-business owners by employee size of firm (Table A1). Almost 60 percent of employers in the United States employ just one to four people meaning that a random sample would yield comparatively few larger small employers to interview. Since size within the small-business population is often an important differentiating variable, it is important that an adequate number of interviews be conducted among those employing more than 10 people. The interview quotas established to achieve these added interviews from larger, small-business owners are arbitrary but adequate to allow independent examination of the 10-19 and 20-249 employee size classes as well as the 1-9 employee size group.

**Table A1**

## Sample Composition Under Varying Scenarios

Employee Size of Firm	Expected from Random Sample*		Obtained from Stratified Random Sample			
	Interviews Expected	Percent Distribution	Interview Quotas	Percent Distribution	Completed Interviews	Percent Distribution
1-9	593	79	350	47	351	46
10-19	82	11	200	27	200	27
20-249	75	10	200	27	200	27
All Firms	750	100	750	101	751	100

\* Sample universe developed from the Bureau of the Census (2002 data) and published by the Office of Advocacy at the Small Business Administration.

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The **NFIB Research Foundation** is a small-business-oriented research and information organization affiliated with the National Federation of Independent Business, the nation's largest small and independent business advocacy organization. Located in Washington, DC, the Foundation's primary purpose is to explore the policy related problems small-business owners encounter. Its periodic reports include *Small Business Economic Trends*, *Small Business Problems and Priorities*, and now the *National Small Business Poll*. The Foundation also publishes ad hoc reports on issues of concern to small-business owners. The Foundation's functions were recently transferred from the NFIB Education Foundation.



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