



**The ASCII Group, Inc.**

**Testimony of Rick Endres  
President, The Washington Network, Inc.**

**Before the  
U.S. House of Representatives  
House Committee on Small Business**

**“The Biggest Tax Problems of Small Businesses”**

**April 9, 2014**



## **Introduction**

Good afternoon, Chairman Graves, Ranking Member Velazquez, and distinguished members of the Committee. My name is Rick Endres, I appear on behalf of my company The Washington Network, Inc., and as a member of The ASCII Group, the nation's oldest community of small and medium sized information technology (IT) solution providers.

I want to thank Chairman Graves and Members of this Committee for holding this hearing on tax issues facing small business. The complexity of the tax code and the difficulty of complying with it are challenges that I face on a regular basis, and it is a challenge that affects my business, my fellow ASCII members, and millions of other small businesses across the country.

Small businesses continue to be the largest job producers in the country. As you know, there are 28 million small businesses in the United States, and the small business community has provided millions of good-paying jobs for Americans at a time when big business continues to eliminate jobs.

I would like to share with you my experiences on behalf of my company and The ASCII Group on the difficulties the tax code presents small businesses in terms of growing our companies and the effect it has on our ability to employ more people.

## **About The ASCII Group**

The ASCII Group is a membership-based community of independent managed service providers, value added resellers, and other IT solution providers. Formed in 1984, ASCII brings together over 1,000 SMB IT integrators and these IT solution providers, located in every state of this country, provide integrated IT solutions for many thousands of businesses, educational and government entities, daily. ASCII provides its members

educational information; group purchasing power; increased leverage in the marketplace; and multiple networking opportunities.

ASCII provides several ways for SMB companies like The Washington Network to communicate with each other, and we have learned from talking to each other that we each share the daunting task of fully complying with the maze of federal, state and local tax laws.

On a state level, members recently asked ASCII to contact each state tax division with nearly two dozen questions related to uncertainties about when they should be charging taxes for services provided to their clients. For companies like mine who do business in the DC area, that means incurring the cost of staying updated on various tax interpretations and laws in Virginia, Maryland, and the District of Columbia. On a federal level, the challenge is just as difficult because of uncertainties with the ever-changing tax code and the ever-increasing number of regulations.

ASCII realized the marked effect the complex federal tax code has had on the success of its members and so became involved due to the efforts led by CompTIA (the Computing Technology Industry Association) through their TechVoice initiative. TechVoice raises awareness on Capitol Hill about issues such as the tax code facing the SMB IT community. Small business owners work an incredible amount of hours, and every hour and every dollar spent on trying to figure out how to comply with the tax code is time not spent on growing their business so they can hire more people.

### **The Effects of a Complex Federal Tax Code**

Founded in 1987, my company, The Washington Network, is an IT consulting firm that supports the computer networks and telephone systems of Washington DC area businesses. During our 27 years in business we have provided IT support to hundreds of companies and employed dozens of people.

While I would consider my company to be a true example of a successful small business entrepreneur, I also consider myself to be the prototypical victim of an uneven tax code that is filled with uncertainty, vagueness and unintended consequences for me and other small IT companies. The complexity of the tax code has had a negative impact on both my business growth and my hiring capabilities.

This is true even for areas of the code that were meant to stimulate job growth. Tax credits designed to help my business often go unused because of the complexity of learning how to take advantage of them.

## **Seven Tax Burden Examples from the Front Lines of Small Business**

### **1 - Unworkable Compliance Time Frame**

The “Hire Veterans Tax Credit” encourages us to hire an unemployed veteran. A worthy incentive, however, this little known credit takes many billable hours to comply with; and if you don’t file Form 8850 *within 28 days of hiring*, you’re disqualified from the credit.

You would think that you’d be able to file Form 8850 for the tax year - right? No – have to file within 28 days. While we still look to hire veterans we won’t be pursuing the credit.

### **2 - Remarkable Complexity**

Filing the 10-page Form 8941 for Small Employer Health Insurance Credit is my “Poster Child” for needless complexity. The amount of information that I have to assemble *to see if I even qualify* is mind-boggling. In 2007 the IRS calculated over 30 hours to comply. In 2013 they claim it can be done in less than 15 hours.

My accountant can do it for me in under 10 hours. So why would I pay \$1,500 to get a \$500 credit? Why not just say – if you are a small business under 25 employees and supply health insurance for your employees we’ll give you a 10% credit. Why the Rube

Goldberg complexity? The only beneficiaries are the accountants. Any wonder that many business-boosting credits don't have their intended effect?

I think that Congress should consider tax preferences for small business but only to the extent that they are usable by real companies in real world situations and won't require extraordinary effort to access them.

### **3 - Instability of the Tax Code - Moving Targets**

I am making business investment decisions without having any knowledge of how ultimately the tax code is going to tax me or my clients. The Section 179 deduction is back down to \$25,000... that a 1950s number. It needs to be expanded back to \$500,000 and above all it should be made permanent. Today's technologies change too rapidly for the current out-of-date depreciation schedules.

### **4 - Capital Formation Disincentive**

If you are a Sub-Chapter S Corporation the tax code does not allow keeping some retained earnings in the business for a rainy day or to fund future growth. There needs to be a portion of the K-1 that is not taxed at the highest rates.

### **5 - Unintended Consequence Limits Hiring**

The tax code has a chilling effect on the number of employees I will hire. Although our employee count has varied over time, we never plan to grow beyond 30 employees in an effort to stay under regulatory and tax code radars. While we make every effort to comply with the tax code, there are so many regulations and expenses involved in trying to comply with the code that we have turned down opportunities to grow due to the potential implications and the increased accounting and legal fees in determining what our new tax responsibilities would be under the code.

### **6 - Many Definitions of Small Business in Federal Law**

Another area that would greatly help small businesses is the elimination of uncertainty that permeates the tax code. It's extremely frustrating when even simple things like

trying to determine whether I am considered to be a 'small business' can be confusing since the government has so many definitions of what a 'small business' is. Depending on the law or regulation, a small business threshold is generally defined as anywhere from 11 employees to 50. The SBA definition is 499 employees and below. This uncertainty eats away at my profits as I spend money on legal and accounting fees to make sure I am in compliance with the law. I know a number of companies that have spent a great deal of money to split their companies in two to avoid head counts over 50. Those costs to avoid punitive thresholds add nothing to their ability to improve their products and increase their competitiveness.

### **7 - Need Time to File a Quality Tax Return**

Finally, decreasing the amount of paperwork and being sensitive to the time/money factors that a small business faces would be very helpful. One change in the code that would help small businesses, for instance, is if there could be an extended deadline for annual returns. While taxes should obviously be paid on time, quality corporate returns often cannot be done by March 15<sup>th</sup>. Most data is pouring in until the first week in February and our accountant needs a couple weeks to prepare along with the crush of all their other clients. So business stops for two or three weeks for many of us while we close our books and prepare for our filing. That deadline should be extended a few months to give small businesses and their accountants more time to prepare a higher quality return.

Furthermore, the quarterly filing of payroll taxes doesn't seem to have any practical utility and adds unnecessary filing costs.

### **Conclusion**

So in conclusion, as a small business owner I am concerned that I will need to continue to divert more resources to make sure I comply with the ever-growing complexity of the tax code. I would ask the Committee to consider sensible changes that will allow me

and other IT small business owners to focus more energy on company and job growth and less energy and dollars on figuring out how to make sure I conform with the code.

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