

Testimony of Steven J. Strobel

BlueStar Energy Solutions

**On Behalf of
The National Small Business Association**



House Committee on Small Business

Hearing:

**“How Tax Complexity Hinders Small Businesses: The Impact on Job
Creation and Economic Growth.”**

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Chairman Graves, Ranking Member Velazquez, and members of the committee, thank you for the opportunity to testify on ways tax complexity impacts job creation and economic growth by placing an unfair burden on America's small businesses. My name is Steven J. Strobel and I am Executive Vice President & Chief Financial Officer at BlueStar Energy Solutions, located in Chicago, Illinois. BlueStar is a retail energy supplier providing electricity and energy efficiency solutions to commercial, industrial and residential customers primarily in Illinois, Pennsylvania, Ohio, Maryland and DC. I am testifying today on behalf of the National Small Business Association (NSBA). Since 1937, NSBA has advocated on behalf of America's entrepreneurs. Reaching more than 150,000 small-business owners nationwide, NSBA serves as an umbrella group to myriad regional, state and local small-business associations and Chambers of Commerce and is proud to be the nation's first small-business advocacy organization.

Although NSBA's members operate a wide variety of businesses, they all consistently rank reducing the tax burden among their top issues for Congress and the administration to address. While the actual out-of-pocket cost is a huge issue, the sheer complexity of the tax code has been an ever-increasing thorn in the sides of America's small businesses. We tend to be an easy target since unlike big corporations—which have large staffs of accountants, benefits coordinators, attorneys, personnel administrators, etc. at their disposal—small businesses often are at a loss to keep up with, implement, afford, or even understand the overwhelming regulatory and paperwork demands of the federal government.

Approximately 37 percent of NSBA members have fewer than five employees—few, if any of whom is a tax specialist—leaving business owners with no other choice but to hire outside help to keep track of all their additional reporting and filing requirements. In fact, according to NSBA's 2011 Small Business Taxation Survey, only 13 percent of small-business owners handle their taxes internally—meaning 87 percent are forced to pay an external accountant—this data should send a strong message to the Internal Revenue Service (IRS) and Congress that the tax code is far too complex. BlueStar is a Sub S corporation and the two owners' tax returns are completed by outside accountants.

Not only is the burden a heavy one, but it is disproportional as well. According to U.S. Small Business Administration (SBA) Office of Advocacy research, the relative cost of tax compliance for small firms is 67 percent higher than for their larger competitors. For firms with less than twenty employees, the per-employee cost of complying with the tax code is \$1,304—and that doesn't include filing costs or actual taxes.

The current tax system is so complex and burdensome that small businesses are spending valuable time and financial resources on record-keeping and outside help to ensure compliance instead of using these resources to do what they do best: grow their business, create jobs, and stimulate the economy. When asked in the NSBA Taxation Survey, how much time and money per year is spent just on the administration of taxes, 50 percent of small businesses said they spend more than \$5,000 and more than a third (38 percent) spend more than 80 hours. BlueStar spends over \$25,000 annually on tax preparation.

As Congress and the administration grapples with a down-turned economy, banking failures and a skyrocketing deficit, it is only natural to look for ways to offset spending and raise revenues. However, it is inconceivable and unacceptable for Congress to do so on the backs of small-business owners—the very entrepreneurs whose job creation has led America out of every recession for thirty years or more. The U.S. economy and job growth are starting to show signs of improvement. However, most small-business owners are not yet in a position to start hiring new employees and they won't be until they have access to safe, dependable, and sufficient access to capital, and public policies that boost investment and encourage entrepreneurship.

Reducing the U.S. deficit has a real benefit to small-business growth in the U.S. and is something America's small-business owners feel should be a national priority. The U.S. has always been a leader in entrepreneurship, however if we do not address our record-high deficit, high debt levels, and our byzantine tax code, our global competitiveness will be stymied.

Congress and the administration over the coming years must address the nation's budget deficit and the associated long-term debt. In addition to reducing the size and pay of the government workforce and overall entitlement spending, one way to do that is to implement real tax reform: simplify the tax code, broaden the base, lower all individual and corporate tax rates, and make the corporate tax code more competitive for U.S. business. These reforms will create a surge in economic growth.

Based on the 2011 NSBA Taxation Survey, when it comes to tax policy, small businesses expressed support for deficit reduction policies that reign-in entitlement spending, and tax reform that reduces both corporate and individual tax rates coupled with a reduction in business and individual deductions.

Federal spending in 2010 amounted to approximately 24 percent of gross domestic product (GDP)—a level not seen since World War II—in part due to the economic downturn. Even with an economic recovery and the ensuing increase in tax revenues and decrease in spending on stimulative and safety net programs—without major changes—federal spending will continue to outpace revenues. If we continue to run high deficits, increased interest rates and constricted credit will negatively impact small businesses' ability to garner financing, the life-blood of every small firm.

According to a recent U.S. Small Business Administration Office of Advocacy study, 80 percent of small firms use credit. If long-term government deficits exacerbate the current credit crunch or adversely affect small firms' future ability to access credit, the effects on the small-business community—and their ability to create jobs and grow the U.S. economy—would be disastrous.

As voted on by NSBA's members at the biennial Small Business Congress, tax reform is one of NSBA's top ten priorities. The current tax code is comprised of more than 10,000 pages of laws and regulations that, in their complexity and propensity for frequent change, serve as a disadvantage to small businesses. NSBA's members believe it is

imperative that the U.S. moves toward a simpler, fairer tax system that is: designed to tax only once; stable and predictable; visible to the taxpayer; simple in its administration and compliance; comprehensible using commonly understood finance/accounting concepts; and fair in its treatment of all citizens.

At a time of record trade deficits and manufacturing job loss, U.S. companies are struggling to compete against foreign competitors. Congress and the administration must recognize that in order to rebuild our workforce and remain competitive, we must ensure that our tax code does not impede the international competitiveness of US companies nor dis-incentivize domestic investment. One option worth consideration is the Fair Tax. In the 112th Congress, legislation has been introduced in the House and Senate, the *Fair Tax Act of 2011* (H.R. 25/S. 13), which NSBA proudly supports.

The Fair Tax allows Americans to keep 100 percent of their paycheck, pension, and Social Security payments, thus enabling them to save more, invest in their businesses, and boost our economy through job creation and innovation. A national sales tax would achieve fairness by employing a single tax rate, close loopholes and deductions and cause the savings rate of Americans to substantially increase.

Most significantly though is the fact that a national sales tax is border adjustable and would place exporting by U.S. companies on a level playing field with our foreign competitors. U.S. exports—including those of small businesses—would benefit from the enactment of a national sales tax. Most of our trading partners have tax systems that are border adjustable. They are able to strip out their tax when exporting their goods. In comparison, our income tax is not border adjustable and therefore, American goods that are sent overseas are taxed twice—once by the income tax and once when they reach their destination. This puts U.S. companies at a competitive disadvantage with our foreign competitors, as well as hurts Americans' ability to save and invest domestically.

Whether it is the Fair Tax or any of the other tax reform recommendations currently on the table, any reform must be built around internationally-competitive tax rules that result in a simpler, more efficient and less costly tax system that provides powerful incentives for businesses to invest and produce in the U.S. The economics of small businesses in all sectors—manufacturers, service providers, farmers and ranchers—would be strengthened by their ability to save and invest in this country, and thus hire additional workers.

The NSBA believes efforts to reduce the regulatory and administrative burdens on small businesses must focus on overall simplification, eliminating inequities within the tax code, and enhancing taxpayer education and outreach. A simpler tax code that is more easily understood by taxpayers would have many benefits, not the least of which would be reduced cost of compliance and reduced unintentional errors. Accurate tax reporting and compliance is extremely important to small business but vague rules and poorly defined regulations understandably result in mistakes. Those who make a good faith effort, yet are inaccurately complying should be assisted through education and tax simplification efforts. Those willfully disregarding their tax liability should be held accountable. However, increased enforcement at the expense of taxpayer education will

not in the long term accomplish sustained, improved compliance. The more assistance offered to taxpayers and the simpler it is to understand and comply with tax laws, the more taxpayers will accurately meet their tax obligations. With the complexity facing many taxpayers, NSBA believes the development and implementation of initiatives to improve IRS guidance and assistance is important.

Although the next few years are likely to require continued economic stimulation—spending and tax cuts—which may deepen the deficit, NSBA is confident that fiscally responsible policies and entrepreneurially-supportive tax simplification will lead to the long-term prosperity of the U.S. economy. It is critical that lawmakers avoid any move which would stymie the moderate economic growth we're just now seeing in the U.S. economy and from the small-business community.