

TESTIMONY BEFORE THE UNITED STATES CONGRESS
ON BEHALF OF THE
NATIONAL FEDERATION OF INDEPENDENT BUSINESS

NFIB
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Testimony of

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before the

Joint Economic Committee

on the subject of

Is Our Complex Code Too Taxing on the Economy?

on the date of

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Good morning Chairman Coats, Ranking Member Maloney, and members of the Joint Economic Committee. Thank you for the opportunity to testify today. I am pleased to be here on behalf of the National Federation of Independent Business (NFIB) as the Committee discusses the issue of tax complexity and its negative impact on our nation's economy.

NFIB is the nation's leading small business advocacy organization. The typical NFIB member employs 8 to 10 employees with annual gross receipts of about \$500,000. All of NFIB's members are independently owned, which is to say that none are publicly-traded corporations. While there is no one definition of small business, the problems NFIB members confront, relative to the tax code, are representative of most small businesses. A few consistent concerns are raised regardless of the trade or industry in which the small business is engaged.

As part of representing small business owners, NFIB frequently conducts surveys of both the NFIB membership and small business population as a whole, and taxes consistently rank as one of their greatest concerns. In the most recent publication of the NFIB Research Foundation's *Small Business Problems and Priorities*, 5 of the top 10 small business concerns are tax-related, and these tax problems fall into three categories: cost, complexity, and frequent changes.¹

Tax complexity, in particular, is a problem for small businesses because spending time and money on tax compliance drains financial resources. Small businesses annually spend between 1.7 billion and 1.8 billion hours on tax compliance and \$15 billion to \$16 billion on compliance costs.² It is no wonder that 91 percent of NFIB members hire a professional tax

¹ nfib.com/problems&priorities2012

² Donald DeLuca and Scott Stilmar, *Aggregate Estimates of Small Business Taxpayer Compliance Burden*, IRS Research Bulletin, 2007.

preparer to handle their taxes and the majority let their tax preparer worry about added complexity in the tax code.³

I serve as President and CEO of GGNet Technologies, which is a technology company that provides IT and datacenter services, along with cybersecurity breach analysis and mitigation. We are an S-corporation that employs six full-time employees. Since our founding in 2006, our accounting costs have risen by 400 percent. Some of that can be attributed to company growth, but much of the rise in accounting costs is due to complexity of the tax code and our need to dedicate additional accounting time simply in order to maintain compliance.

We are frozen during tax season. Business reports and planning between February and April are put on hold or delayed because we are so focused on taxes. We are unable to produce timely reports on cash flow, profit/loss, etc. during this time. I also feel tax complexity has a disproportionate impact on small businesses like mine. I do not have the same financial resources as larger companies. If the tax code was less burdensome, I would be able to focus more time and resources on my customers rather than taxes.

It seems that the harder I work, the more complex my taxes become. When I first started out I was only billing out my time and taking the normal deductions for working out of my home. I spent 18 hours doing my taxes, but I was able to complete them myself. Now, with deductions, pass-throughs, and active and passive income, tax compliance is beyond my own ability, or even that of my bookkeeper. I am not small enough to be able to prepare taxes myself, but I am also not large enough to employ an entire accounting staff. As a very small business, I have one full-time employee devoted to addressing accounting and taxes, and approximately 40

³ *Taxes and Spending: Small Business Owner Opinions* – NFIB Member Poll, NFIB Research Foundation, Washington, DC, March, 2013.

percent of her time is spent working on tax-related functions, including classifying and filing federal, state and local taxes.

Furthermore, taxes impact every aspect of my operations and decision-making. Due to complexity in the code, I am confronted daily with the question of how to classify an item, whether it be operations, capital, minor equipment, or how to differentiate between a contract worker and employee. Payroll complexity forces us to utilize software, but often times the software will not classify properly and I am forced to spend valuable time on support calls with my accountant. A personal example is when I teamed up with three partners to set up an LLC to acquire an underused fiber optic backbone in Chesterton, Indiana. This would bring gigabit service to homes and businesses in our community. As we developed our business plan and pro forma, we recognized the need for correct interpretation of the tax code in order to determine if this was a profitable or unprofitable venture. We contacted three different accounting firms and a tax attorney and experienced, first-hand, the challenges in determining what is or is not considered real property for tax purposes. Tax complexity also impacts my more routine decision-making such as those relating to inventory. For example, navigating the complexity in the areas of liquidity and depreciation creates significant frustration and uncertainty as I operate the business on a daily basis.

In addition to spending increased time and financial resources on tax compliance, my company is further inhibited by last-minute changes to the code. I create our budget for the upcoming year in December, but it is hard to accurately project when the tax rules impacting our budget are not released until November or late January. Businesses, such as mine, are reluctant to buy equipment, make investments, and hire new employees when there is that degree of uncertainty regarding their tax liability.

In conclusion, small businesses truly are the engine of economic growth. This is not just a slogan, as small businesses created two-thirds of the net new jobs over the last decade. The current tax code has become a confusing and unpredictable challenge for the vast majority of small business owners, like myself. Our tax laws should not deter or hinder the ability of small business owners to create or expand their businesses. After decades of patchwork changes to the tax code, Congress needs to make major adjustments to our tax laws to reduce complexity and confusion and encourage business growth.

As Congress takes a serious look at reforming the code, I urge you to keep in mind the unique challenges that face small businesses. Alleviating tax code complexity is an essential component in creating a strong, healthy environment for small business owners to operate and grow their businesses. I appreciate the opportunity to testify today and look forward to answering any questions you might have.