

**IRS ROUNDTABLE ON THE TAX GAP**  
**Statement by Macey Davis, Tax Counsel with NFIB**  
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Thank you, Commissioner Everson and Assistant Secretary Solomon, for giving me the opportunity to speak at this roundtable on behalf of the National Federation of Independent Business (NFIB). I am glad to be here to talk about this very important issue to our members and to small businesses in general.

Roughly 80 percent of our members have less than 15 employees. They already think the tax code is complex and burdensome, and there is no doubt that some of the recent tax gap proposals will add to that burden.

Just to give you an idea as to how bad things are now, according to NFIB's national polls roughly 55% of small businesses have to hire an employee or outside firm to keep track of their paperwork. This is costing them an average of more than seventy-five dollars (\$75) an hour. Another eighty-eight (88) percent say they are using a paid tax preparer or accountant to prepare their tax return.

Not only is the burden a heavy one, but it is disproportional as well. Tax compliance regulations are costing small firms 67 percent more per employee than large firms.

What does this data tell us? It tells us that we have crafted a tax system that 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 invest and grow their business.

**Small Business Can't Afford More Burdens**

And now, we want to talk about piling on more burdens that they simply can't afford. At least two proposals from the bluebook will make their burden much worse: the first is requiring information returns on payments made to corporations and the second is requiring TIN verification and optional withholding.

The burden of expanding information reporting on corporations is not just from issuing additional 1099-MISC forms. Additional record-keeping and

postage costs may be necessary. Even with an outside person to handle the paperwork or the returns, it's extra time and money that the compliant small-business can't afford.

And what happens when the IRS receives these forms? Are they prepared to match them? Can they handle the volume? Do they need more funds to improve the current system or prepare for new ones?

Consider the burden by requiring businesses to verify the contractor's TIN. Unless the business has easy access to a real-time verification system that is not riddled with errors, there could be delays in performing and paying for the contractor's service. This can harm the daily operations of a business, and it could disrupt the contractor's cash flow.

Another part to this proposal allows the contractor the option to require the business to withhold. Imagine the administrative nightmare for businesses that have to withhold from some contractors and report information returns on others. Also, consider the complexity involved if each contractor requests a different rate, not to mention that the rates recommended may be unreasonably high.

### **Who are we after and is the data sufficient to craft targeted proposals?**

If we are truly serious about closing the tax gap, then we need to have a better understanding of who the non-compliant taxpayers are and what we know about them. If we're after the underreported business income of a sole proprietor, why are we considering proposals to report information on corporations when that data is from the 1980s?

Even with the more recent data on sole proprietors, there is still so much we don't know. Should we be more focused on business-to-business transactions or consumer-to-business transactions? If it's the latter, requiring information reporting on corporations isn't going to solve that problem.

Further, should we be focused on established businesses or individuals who don't know that their hobby is a business? If it's the latter, it is unlikely that this individual is incorporated. He won't be getting information returns from his consumer clients, unless Congress is prepared to require consumers to file information returns. Are we prepared to go there?

Finally, should we be focused on credit card transactions or cash transactions? If it's the latter, then how will reporting of payment card transactions solve the problem? Are we prepared to eliminate cash transactions as a method of payment?

### **How Far Are We Willing to Go?**

I can sit here and recommend modifications to these proposals that might help to alleviate the burden on our members. However, I think we should be redirecting our focus to tax simplification and educational outreach. Maybe we should be holding seminars through a public/private partnership to educate first-time filers of the Schedule C return. Maybe we need to be looking at how to simplify the Schedule C itself in a way that helps the IRS improve matching. Maybe we should revisit efforts to clarify and preserve the independent contractor status.

Unfortunately, we are not headed down this path, and this is leaving a bad impression on the very business community that is providing roughly two-thirds of net new jobs. We praise them as the backbone of our nation's economy, we reward them with much-needed tax relief to help them boost the economy, and yet we simultaneously blame them for draining the economy and causing the so-called "tax gap." We recommend more burdens and more record-keeping requirements, and we nullify the very tax relief measures that help them stay in business. We are biting the hands that feed us. These are compliant taxpayers who already pay for the illegal behaviors of the non-compliant.

The bottom line is that if we intend to place more burdens on small businesses, we need better data to craft more targeted solutions. Then we need to consider how far we are willing to go with those.

Thank you for your time.