



National Small Business Poll

NEIB National

Volume 2, Issue 4
2002

Small Business Poll

Administering the Sales Tax

NFIB National Small Business Poll

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.

Current individual reports are publicly accessible on the NFIB Web site (www.nfib.com) without charge. Published (printed) reports can be obtained at \$15 per copy or by subscription (\$100 annually) by writing the *National Small Business Poll*, NFIB Research Foundation, 1201 "F" Street, NW, Suite 200, Washington, DC 20004. The micro-data and supporting documentation are also available for those wishing to conduct further analysis. Academic researchers using these data for public informational purposes, e.g., published articles or public presentations, and NFIB members can obtain them for \$20 per set. The charge for others is \$1,000 per set. It must be emphasized that these data sets do NOT contain information that reveals the identity of any respondent. Custom cross-tabulations will be conducted at cost only for NFIB members on a time available basis. Individuals wishing to obtain a data set(s) should write the *Poll* at the above address identifying the prospective use of the set and the specific set desired.

NFIB National
Small Business
Poll



Administering the Sales Tax

Volume 2, Issue 4
2002
ISSN - 1534-8326

William J. Dennis, Jr.
NFIB Research Foundation
Series Editor



1201 "F" Street NW
Suite 200
Washington, DC 20004
nfib.com



550 California Street
11th Floor
San Francisco, CA 94104
wellsfargo.com

National Small Business Poll



Administering the Sales Tax

Table of Contents

Executive Summary	1
Administering the Sales Tax	2
Tables	9
Data Collection Methods	20

Executive Summary

- Fifty-seven (57) percent of small-business owners collect and remit sales taxes (excluding those in states where none are levied). On average, sales taxes are levied on about half of their sales. Retailers universally collect them with about half of those in construction, manufacturing and services (narrowly defined) collecting them on at least some sales.
- The most frequent (54 percent) primary reason that 42 percent of small-business owners do not collect any sales taxes is that they sell tax-exempt services. Another 18 percent say the primary reason is that they sell to non-end-users. The remainder provide varying reasons though relatively few report sales outside their home state's jurisdiction as the primary reason.
- Thirty (30) percent of small-business owners who collect the tax say that it could be made "a lot" easier to administer and another 24 percent say that it could be made "a little" easier. However, just four percent classify administering the sales tax as a "serious business problem" with another 23 percent terming it a "continuing hassle."
- Different tax rates on different sales create "a lot" of administrative burdens for 13 percent of small-business owners who believe the sales tax could be simplified. Almost the same proportion find exempt sales creating "a lot" of problems. Thirteen (13) percent also find that distinguishing between exempt customers, e.g., a non-profit organization or a non-end-user, and non-exempt customers leads to "a lot" of difficulties. Those expressing concern about each are usually not the same owners.
- Modern cash registers appear to play an important role in mitigating potential problems caused by different tax rates and the tax-exempt status of some sales.
- The largest administrative problem for small-business owners appears created by compliance with varying sales taxes in multiple jurisdictions, particularly between state and local sales tax structures in the 30 states that allow local sales taxes. Only 19 percent of those facing state and local sales taxes say the jurisdictions have "identical" taxes for all intents and purposes, though 50 percent say they are similar.
- About six percent of those collecting sales taxes report that they must collect them for more than one state. Eleven (11) percent of the group has sales over the Internet.
- In the last five years, 18 percent requested at least one refund or adjustment for overpayments made. Seven (7) percent report that the requested change was "very difficult" to obtain while 40 percent reported it was "somewhat difficult." Overpayments resulted primarily from clerical errors.
- Nineteen (19) percent report that they are allowed to keep a percentage of the revenues collected in payment for their services as "tax collectors." But, about two-thirds of those say that the reimbursement does not cover the costs they incur collecting the tax.
- Over one in five have experienced an audit of their sales tax records in the last five years. It is also common for those not required to collect sales tax to experience a sales tax audit.

Administering the Sales Tax

The sales and use tax produced \$165 billion in revenues for states and another \$35 billion for localities in 1999. Forty-five (45) states levy a sales and use tax. In addition, 30 states allow localities to levy their own. Despite its size and pervasiveness, two recent developments have focused particular attention on the tax. The first is Internet sales (retail) and the concern of many state (and local) officials that their current tax status will cause states to lose a substantial portion of their sales and use tax revenues. While “e-tailing” accounts for only one percent of retail sales, officials remain worried. Many states have responded by entering into the Streamlined Sales Tax Project, essentially a collaborative effort to draft model state legislation to simplify and standardize collection procedures. They hope a successful model will increase compliance and encourage the federal government to allow states to collect sales taxes on now exempt (for all intents and purposes) interstate sales. The second development involves the continuing search for a consumption-based Federal tax system. Many believe that the current Federal income tax is a significant disincentive for savings and investment. One of the alternatives proposed is a Federal retail sales tax; a variant is a Value Added Tax (VAT). Each in its own way raises issues of administrative burdens and complexities that are part of these taxes. Any sales and use tax in principle should be simple to administer. But in practice, it is notably more complicated than seems necessary. Some sales are subject to the tax and some are not; some sales are taxed at one rate and others at another rate; some sales are taxed if used for one purpose, but not taxed if used for a different purpose; some people and organizations have to pay the tax and others do not; some must add local tax and its requirements to the state tax and its requirements while others only worry about the state levy. And there are record-keeping issues, deposit issues, etc., none of which are incidental to operating a business. These complications have often been a source for small-business owner aggravation and complaint. As a result, this issue of the *National Small Business Poll* focuses on small business administration of the sales tax.

Collecting (and not Collecting) the Sales Tax

Almost three in five (57 percent) small-business owners have at least some of their sales subject to a state sales tax (Q#1). (Owners in states without a sales and use tax were not included in the survey and are not included in published totals.) Retailers pay the tax almost universally and the two survey cases who report they don't probably misclassified the "industrial sector" of their firms. But retailers are not the only small-business owners administering the tax. Over 60 percent of contractors, a majority of manufacturers, and over 40 percent of those in the narrowly defined services collect sales tax on at least some of their sales. Owners with firms in the financial services are least likely to do so.

The owner of the average firm collects the tax on about half of his sales. But the average disguises a wide variation. Almost one-quarter (24 percent) collect the tax on all sales. Sixty-one (61) percent collect it on less than 75 percent of sales and 39 percent collect it on less than 25 percent of sales. Fifteen (15) percent say that they collect sales tax, but would not venture a guess on what percentage of sales. Even among retailers who primarily sell taxable goods, just one-third indicate that they collect the tax on all sales though half say that they collect it on more than 80 percent of them.

The reason for these collection levels, of course, is that every sale is not taxable. For example, the taxable sale of a product may also have a non-taxable installation charge on the bill. Or, a hammer sold to a consumer is taxable where the same hammer sold to the city's roads department is not.

Retail now comprises just over 20 percent of the small employer population. Almost twice as many non-retail firms collect the tax as retail firms. Despite the fact that retailers charge the tax on a greater share of their sales than do others, administration of the sales and use tax is not solely a matter for retailers. In fact, an argument can be advanced that administrative problems are relatively more difficult for those who have less familiarity and/or experience with its operation. Any administrative burdens associated with collecting the sales tax therefore extend beyond the retail sector into other industries.

In contrast, 42 percent of small-business owners indicate that they do not collect the sales tax on any of their sales (Q#1). Most never have. In fact, just 5 percent of those who do not now do so, collected it at some point within the last five years (Q#16). The survey contains no information on the business change(s) that allowed their migration from collecting the tax to not collecting it.

The primary reason (54 percent) that these owners do not collect sales tax is that they sell exempt services (Q#14). Another 18 percent indicate that they do not do so primarily because their sales are to non-end-users such as other businesses. The remainder scatter their primary reason among a variety of other causes. However, sales outside the state's jurisdiction, either to residents outside their states or abroad, is offered as the primary reason by less than 5 percent of those who do not collect it. These latter data suggest that sales tax revenue lost to cross-border sales is relatively small compared to the variety of other exemptions, at least among small businesses. Another 3 percent say they sell to governments and/or non-profits. About 20 percent either responded "other" or did not offer a response. The relatively large number in this category could result from several factors including the lack of a single "primary" reason.

Administrative Burdens of the Sales Tax

Despite frequent, bitter complaints, many owners subject to the tax do not believe that administration of the sales tax under current circumstances is a difficult business problem. Just four percent term administration of the tax a "serious business problem" though 23 percent term administration of the sales and use tax a "continuing hassle" (Q#2). Most rank it lower in their hierarchy of business problems. Twenty-five (25) percent consider it a "minor annoyance" (Q#2) while 39 percent of those subject to the tax say that they have "no real problems" with its administration.

Little appears associated with those more or less concerned about administration of the sales tax. The percentage of taxable sales is not related nor is the owner's education level nor is years in business, i.e.

experience. Industry generally is not related either, though owners of retail and service operations are slightly less concerned and others slightly more. Those in the West complain about the problem substantially more than those in other regions. Yet, nothing appears to distinguish administration of the sales tax in the West from its administration elsewhere in the country.

Though the level of general concern appears low, a majority believe the tax could be made easier to administer. Thirty (30) percent say that it could be made “a lot” easier and 24 percent say it could be made “a little” easier (Q#3). Thirty-nine (39) percent do not believe the tax’s administration could be simplified.

a. Simplifying the Sales Tax

Small-business owners splintered when asked to identify specific items or means to ease administration of the sales tax. Twenty-nine (29) percent could not offer a specific issue (Q#4). The most frequently named was inconsistent tax rates (11 percent). Eight (8) percent identified “intended use” issues as did the number who just said “simplify.” Seven (7) percent each mentioned greater uniformity of items taxed and payment schedules. Other suggestions, such as provision of software and on-line filing, were also voiced. However, when presented a series of potential administrative difficulties, respondents reacted more decisively.

Prompted with specific potential issues, small-business owners found much that they think could be improved. The first issue posed was different tax rates on different goods or services. For example, one item might carry a five percent tax and another item might carry a three percent tax. Thirteen (13) percent of those who believe that sales tax administration can be made easier say that different tax rates on different taxable goods or services creates “a lot” of administrative problems and another 16 percent say that it creates “some” problems for them (Q#5A). In contrast, 58 percent believe different rates do not cause a problem. The latter response can result from one of two reasons. The firm only sells goods that have a single rate; in that instance, differential rates hardly could be a problem. Or, there really is no particular burden. The data do not allow

us to determine which is the more prevalent. However, differential rates, where present, tend to be confined to a limited number of items and therefore impact a limited number of businesses.

As a general rule, sales taxes are levied on goods, but not on services. Even when that rule prevails, not all goods are taxed. Food is an example of an item (a good) that often is exempt when sold as groceries for home consumption. In contrast, food prepared and consumed on the premises is almost always taxed. The distinction can blur on food heated in a microwave at a convenience store and eaten in the car. Differentiating between taxable and non-taxable items such as in the example above offers many potential administrative problems. Twelve (12) percent of small-business owners report that distinguishing between goods/services that are taxed and goods/services that are not taxed creates “a lot” of administrative problems for them and 24 percent more report that it creates “some” (Q#5B). In contrast 40 percent say that it creates no problems for them and 20 percent say that it creates only “a few.” Exempt (and non-exempt) items therefore appear to create more problems than varying rates, though the reason may be their greater prevalence than any inherent administrative issue.

Some firms must tax everything they sell. They are not affected by exemptions. If these firms are removed from the calculation, the totals are quite different. Thirty-four (34) percent, instead of 12 percent, say that distinguishing between taxable and non-taxable sales creates a “lot” of administrative problems for them and another 23 percent say it creates “some.” Of those impacted, over half term it an administrative burden for them. These data underscore a very important point. An exemption can impact a greater or lesser number of businesses. The number affected will have a greater or lesser impact on the population’s total burden.

Modern cash registers help owners and their employees distinguish between taxable and non-taxable sales. Forty-one (41) percent report that they normally use preprogrammed cash registers or computers to differentiate between the two (Q#6). Presumably they do the same to distinguish between different tax rates on differen-

tially taxed items. The drawback to this facility is that the owner still must know which items are taxable (and at what rate) and which are not in order to properly program the cash register. That procedure can be eased by clear, common-sense distinctions. Still, almost 60 percent rely on other, generally non-automated, means to distinguish between taxable and non-taxable items. The second most frequently used method is to tax everything. Twenty-two (22) percent say everything they sell is taxable so the potential problem does not arise for them. If nothing else, an across-the-board levy is the height of administrative simplicity. That still leaves two in five who depend on less formal methods. Eleven (11) percent rely on personal memory and 10 percent refer to special tables or lists. Fourteen (14) percent report using other methods. The increasing use of “smart” cash registers (and scanning devices) will reduce the administrative problem over time, but these machines remain costly and the smallest firms will often not be able to justify them.

Not everyone pays sale tax. Non-profits are usually exempt. Similarly, non-end-users are usually not charged. Those residing in another state or country are also not subject to the sales tax (though the purchasers are almost always subject to the “use” portion of the tax in their state of residence). That means the seller must determine, occasionally at the time of sale, who must pay the tax and who is exempt. Further, special records must be kept on these sales. Surprisingly, just 13 percent believe that such exemptions create “a lot” of problems and another 26 percent say that it creates “some” (Q#5C). However, another 13 percent believe it creates only “a few” while 45 percent do not believe these potential problems create difficulties for them.

Fifty-seven (57) percent of those who assert administration of the sales tax could be simplified indicate that they either have “a lot” of problems or “some” problems working with at least one of these three structural or exemption issues. Just 13 percent say that they have “a lot” or “some” difficulties with all three of them. In at least one sense, these numbers underestimate the burden because not all small-business owners face each situation.

a. Local Sales Taxes

A variant of the potential administrative problems derived from different treatment of goods/services and people occur when a business is subject to different sales tax rules in different political jurisdictions. Initially, this issue raises questions about doing business in different states, but the more common problem appears to be local jurisdictions “piggy-backing” a local sales tax on the state’s. Thirty (30) states now have such local taxes. While piling sales taxes is obviously an issue for the states and their sub-units, it would also be an issue if the Federal government opted for a national sales tax.

Fifteen (15) percent of those who now collect sales taxes say the inter-jurisdictional differential creates “a lot” of problems and 22 percent say it creates “some” (Q#5E). However, if only those who claim to be subject to a local sales tax are included, 21 percent say the inter-jurisdictional differential creates “lots” of problems and 29 percent say it creates “some.” This result argues that when experiencing the piggy-backed tax, the administrative burden becomes much greater than when dealing with the state’s version alone.

Forty-three (43) percent of small-business owners subject to a state sales tax are also subject to a local variant (Q#7). About half (45 percent) of those must collect sales tax for only one local jurisdiction (Q#7a). Thirty-four (34) percent claim that they must collect sales tax for more than one while 21 percent are not certain. Since most small businesses are single location entities, it is likely most of those also collect sales taxes for only one local jurisdiction. A small contractor is an example of an exception to that observation.

The degree of difficulty administering the two taxes simultaneously would appear tied to the similarity between the two. Similar structures should lead to easier administration than disparate ones. The most simple local sales tax would be a percentage add-on to the state’s, but that does not always occur. Affected small-business owners report that most local jurisdictions have sales tax rules and coverages that are close to their state’s. Nineteen (19) percent claim that local rules and coverages are “identical” for all intents and purposes to those

operated by the state (Q#7b). Half (50 percent) believe that they are similar. But 17 percent say that the two are dissimilar or totally different. Fifteen (15) percent failed to make an evaluation. The number of cases does not permit comparison of the reactions among those who feel they are virtually identical and those who feel they are totally different.

b. Collecting Sales and Use Tax for “Other” States

States are highly sensitive to any sales tax revenues foregone due to retail sales made to their citizens by entities lying outside their immediate jurisdiction. While the states should theoretically capture these revenues when their citizens voluntarily send a sales tax check to the Treasury for the goods they purchase (the use tax portion of the sales and use tax), virtually no one complies with the law and it is almost impossible to enforce. States therefore would like businesses outside their state to collect sales tax on items purchased by their citizens. Neither businesses nor the citizenry seem inclined to do that. So states lose revenue they otherwise would have had. Catalogue sales created the issue, but over time and after court rulings it ebbed as a high-profile issue. Internet sales resurrected it. While those predicting a major erosion of state tax revenues due to Internet sales now look foolish because only about one percent of retail sales occur over the Internet, the issue remains important to the states, symbolically and long-term, if not practically and immediately.

Six (6) percent of small-businesses are required to collect and file sales taxes in states other than their own (Q#8). The propensity is directly related to firm size. Seventeen (17) percent of those employing 20 or more people must collect it in more than one state. Just five percent of those employing fewer than 10 must. Larger firms are more likely to have multiple locations, and otherwise conduct business out-of-state. About half who say they must collect the tax for “another” state believe that it creates an administrative problem for them. However, many who report that they are not legally bound to collect taxes on out-of-state sales also say it is a problem for them (Q#5I). (Readers should recognize that the denominators in Q#8 and Q#5I are different.) That means a small percentage are collecting sales tax for other states, though they don’t feel legally obligated to do so. The interesting question is why they collect it. One likely answer is confusion over nexus issues.

Eleven (11) percent of those who pay sales tax on a portion of their sales say that they sell goods and services over the Internet (Q#9). That translates into about 7 percent of the entire population. The survey followed the question on Internet sales with one on the collection of taxes on sales made. The *Poll* does not report data with fewer than 50 respondents and in this instance the number fell below (n=49). However, this limited number of cases suggests a wide variety of treatments. Most do not appear to levy sales tax. But some do for in-state sales only and others charge it on all sales. The data do not show whether the levy is a flat rate or varying by purchaser’s state, though the latter is doubtful.

c. Records and Deposits

Sales tax collection records must be maintained and tax deposits made. One type of record that must be retained exclusively for purposes of the sales and use tax is exemption certificates and other paperwork showing the tax-exempt use of a product sold. A business would have no need to maintain such records without the existence of the tax.

Fourteen (14) percent say that maintaining these special records produces “a lot” of problems for their business. Another 22 percent indicate that it creates “some.” Still, the overwhelming majority have no problem with this paperwork. The reason may be that it is simply a minor ripple in the sea of mandated paper, or the reason may be that relatively few feel it necessary to maintain much of it.

Some states require that taxes be deposited with the government before sales are made, let alone before bills are collected from the customer. This means that small business must give the government a “free” loan. The Commonwealth of Virginia is an example of a recent transgressor. Small business is notoriously short of cash. Thus, these forced loans not only amount to a tax on a tax, but likely damage to the firm’s cash flow. Relatively few seem terribly con-

cerned, however. Ten (10) percent say that the requirement creates “a lot” of problems for them and 22 percent say it causes “some” (Q#5G). One in 10 is a relatively small incidence and suggests only minor problems. Given the prominence cash flow issues occupy among most small businesses, the response suggests that relatively few small businesses are impacted.

The frequency of tax deposits can also become a cash flow issue. Yet, just 10 percent also say that the frequency of sales tax deposits causes them notable aggravation (Q#5H). This view differs substantially by firm size. Those owning businesses employing 20 or more people are considerably more concerned. Sixteen (16) percent of this group report having “a lot” of problems with deposit requirements while 42 percent say that they have none. Smaller, small firms typically suffer more severe cash flow problems than larger ones. This suggests that those with larger liabilities are depositing more frequently on a relative basis.

d. Overpayments and Refunds

Tax collectors are not usually tolerant of a firm’s failure to settle accounts on time. Penalties and interest almost always follow late payments/deposits. But there are times when sales taxes are overpaid and a small business needs to seek an adjustment or a refund. In these cases, the small-business owner would like expeditious, no hassle treatment in having his account reflect a positive change.

Eighteen (18) percent of small employers report that in the last five years they have requested a refund or sought an adjustment to current taxes due to a sales tax overpayment (Q#10). The primary reason (54 percent) for the overpayment(s) is a clerical error (Q#10a). However, unclaimed deductions for an unfulfilled transaction or a bad debt is responsible for overpayment 19 percent of the time. Tax paid on exempt transactions is responsible in 10 percent of cases. But whatever the reason for the overpayment, small-business owners frequently encounter difficulties getting the requested refund or adjustment. Seven (7) percent report that requested change was “very” difficult to get while another 40 percent report that it was “somewhat” difficult (Q#10b). Thus,

about half indicate that they had a problem correcting their overpayments. Most problems appear to center on adjustments, probably because it is the more frequently requested action. Just four percent claim to have difficulty with reimbursement for overpaid taxes (Q#5D).

e. The Role of “Tax Collector”

There is no business interest in collecting sales tax revenues for government. A small-business owner therefore assumes the role of a tax collector and absorbs all of the costs and liabilities inherent. Some states compensate small-business owners for their time and expense by allowing them to retain a portion, usually a small percentage, of the taxes they collect. Nineteen (19) percent of owners collecting the tax claim that they can keep a specified portion to compensate them for the taxes collected (Q#12). While this financial consideration obviously helps small-business owners, most who receive it do not feel that the amount adequately compensates them for their costs. In fact, 42 percent assert that the retained revenues are “a lot less” than the costs of collecting the tax and another 27 percent say that it is “somewhat” less (Q#12a).

f. State Tax Audits

There are several degrees of tax audit. Some are intensive where tax officials literally comb every pertinent record. Others are cursory in the sense that they may involve requests for additional documents or clarifications. The survey did not attempt to distinguish between them when it asked whether a state agency had audited the firm’s sales tax records. The response, however, suggests that states audit to some degree the sales tax records of a substantial number of small businesses. Twenty-two (22) percent report that their sales tax records have been audited by a state agency in the last five years (Q#11). The likelihood varied by firm size. Forty-four (44) percent of those employing 20 or more say they had faced such a check while less than half that proportion did among those with fewer than 10 employees.

Even when a small business neither collects the sales tax nor is required to do so, tax enforcement officials can and do audit

business records to ensure that these firms need not do so. Fifteen (15) percent of small employers who are not required to collect sales tax report that they have undergone such an audit in the last five years (Q#15). Nearly one in four of those employing 20 or more people say the same. The frequency of audit is somewhat less among this population than reported by those who collect the tax. Still, it is not uncommon for those who are outside the sales tax system to undergo a sales tax audit.

Concluding Observations

The sales tax is administered directly by well over half of the nation's small-business owners even when those who operate in states without a sales tax are counted. While infrequently collected on all sales due to exceptions and non-covered sales, the tax's administration represents a substantial undertaking by those affected. From afar, the principal administrative problem would appear to stem from the notable exceptions and exemptions within the structure of the sales tax. While these inconsistencies in the tax clearly cause problems for many small-business owners, the use of modern cash registers, the seemingly focused impact of the exemptions, and the generally clear dividing line between goods and services appear to mitigate the potential difficulties for many.

Arguably, the major administrative problem for small-business owners involving the sales tax occurs when more than one jurisdiction with more than one set of rules and rates are involved. The primary difficulty would appear to be inconsistencies (or other difficulties) generated by state and local sales taxes rather than generated by sales taxes in varying states. However, that is likely true only because so many more have multi-jurisdictional responsibilities associated with localities than with other states. It is also not clear if the multi-jurisdictional problems stem from different tax coverages (and rates) or from different procedures such as deposit requirements and dates. These results offer a note of caution to both those who would extend the sales tax to Internet sales and to proponents of a national sales tax. A similar tax with different, even if similar, rules can create unnecessary and unwarranted administra-

tive problems. This is particularly noteworthy given that those who must implement the rules do not have the luxury of the narcissistic perspective often demonstrated by those who create them.

Given the potential problems associated with administering the sales tax, the frequency of strong criticism is surprisingly small. That is encouraging and not typical of most taxes that small-business owners must address. However, there are areas where improvements are possible. There are also areas where a tolerable administrative burden could be intolerably increased.

Administering the Sales Tax

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

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
1. On approximately what percentage of your total sales must you charge the state sales and use tax?				
1. None	42.5%	36.6%	43.8%	42.0%
2. 1% - 24%	20.0	23.2	19.2	20.2
3. 25% - 49%	3.5	7.3	4.1	4.0
4. 50%-74%	6.3	4.9	6.8	6.2
5. 75% - 99%	6.5	9.8	6.8	6.8
6. 100%	12.0	8.5	11.0	11.6
7. (Charge, but unspecified percent)	8.8	9.8	8.2	8.8
8. (DK/Refuse)	0.5	—	—	0.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

2. Which best describes ADMINISTRATION of your state's sales and use tax? (If not "none" in Q#1.)

1. A serious business problem	4.3%	3.4%	4.5%	4.2%
2. A continuing hassle	23.3	25.9	20.5	23.4
3. Occasional difficulties	7.0	8.6	9.1	7.4
4. A minor annoyance	24.7	22.4	29.5	24.8
5. No real problems	39.7	39.7	36.4	39.4
6. (DK/Refuse)	1.1	—	—	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

3. Could your state's sales and use tax be made easier to administer? A lot or a little?

1. A lot easier	30.0%	27.6%	28.9%	29.6%
2. A little easier	22.8	27.6	24.4	23.5
3. No	39.7	39.7	35.6	39.3
4. (DK/Refuse)	7.5	5.1	11.1	7.5
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

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

4. What is the ONE most important step the state could take that would simplify administration of the state sales and use tax for you? (Open) (If “a lot” or “a little” in Q#3.)

1. Tax rates more consistent/uniform	10.7%	13.3%	13.0%	11.2%
2. Items taxed more consistent/ uniform – definitions of taxable items	6.6	6.7	13.0	7.2
3. Exempt fewer people/ organizations from taxation	1.0	—	4.3	1.2
4. Change payment schedule	8.1	3.3	4.3	7.2
5. Eliminate/revise “intended use”	8.1	3.3	8.7	7.6
6. Reduce record-keeping	2.0	6.7	—	2.4
7. Eliminate it	6.6	6.7	—	6.0
8. Online capacity/software	6.1	3.3	4.3	5.6
9. Simplify	7.6	6.7	8.7	7.6
10. (Other)	15.2	20.0	8.7	15.2
11. (DK/Refuse)	27.9	30.0	34.9	28.8
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

5. Do the following potential administrative difficulties with state sales and use tax create problems for your business? How about:

A. Different tax rates on different taxable goods or services?

1. A lot	14.7%	6.5%	8.3%	13.1%
2. Some	14.7	19.4	16.7	15.5
3. A few	12.2	12.9	12.5	12.3
4. No	56.9	61.3	58.3	57.5
5. (DK/Refuse)	1.5	—	4.2	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

B. Some goods and services are taxable and some are not?

1. A lot	12.2%	10.0%	13.0%	12.0%
2. Some	22.3	36.7	26.1	24.4
3. A few	20.8	16.7	21.7	20.4
4. No	41.1	36.7	39.1	40.4
5. (DK/Refuse)	3.6	—	—	2.8
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

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

C. Some people and organizations have to be charged the tax and some don't?

1. A lot	13.3%	13.3%	8.7%	12.9%
2. Some	26.0	23.3	30.4	26.1
3. A few	10.7	23.3	21.7	13.3
4. No	46.4	40.0	39.1	45.0
5. (DK/Refuse)	3.6	—	—	2.8
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

D. Reimbursement for overpaid taxes?

1. A lot	3.6%	3.1%	8.0%	4.0%
2. Some	14.3	12.5	8.0	13.4
3. A few	10.7	15.6	16.0	11.9
4. No	68.9	65.6	60.0	67.6
5. (DK/Refuse)	2.6	3.1	8.0	3.2
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

E. Subject to different sales tax rules in different political jurisdictions?

1. A lot	15.7%	6.5%	16.0%	14.6%
2. Some	22.8	22.6	16.0	22.1
3. A few	6.1	16.1	20.0	8.7
4. No	52.3	51.6	44.0	51.4
5. (DK/Refuse)	3.0	3.2	4.0	3.2
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

F. Maintenance of special records such as resale or exemption certificates?

1. A lot	13.7%	16.1%	16.7%	14.3%
2. Some	33.0	25.8	20.8	31.0
3. A few	16.2	19.4	20.8	17.1
4. No	36.5	38.7	37.5	36.9
5. (DK/Refuse)	0.5	—	4.2	0.8
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

G. Tax deposits required before invoices are due or bills paid?

1. A lot	10.2%	12.5%	8.7%	10.3%
2. Some	22.8	18.8	17.4	21.8
3. A few	13.2	12.5	17.4	13.5
4. No	50.3	53.1	56.5	51.2
5. (DK/Refuse)	3.6	3.1	—	3.2
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

H. Frequency of tax deposits?

1. A lot	9.1%	9.7%	16.7%	9.9%
2. Some	12.7	12.9	12.5	12.7
3. A few	14.2	16.1	25.0	15.5
4. No	60.4	58.1	41.7	58.3
5. (DK/Refuse)	3.5	3.2	4.2	3.6
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

I. The need to collect and pay sales tax on “out-of-state” transactions?

1. A lot	8.6%	9.7%	8.3%	8.7%
2. Some	10.7	9.7	8.3	10.3
3. A few	6.1	6.5	12.5	6.7
4. No	69.0	74.2	62.5	69.0
5. (DK/Refuse)	5.6	—	8.3	5.2
Total	100.0%	100.0%	100.0%	100.0%
N	104	71	61	236

6. How do you normally distinguish between sales that require the tax to be charged and sales that don't? Do you:

1. Use pre-programed cash registers or computers?	39.9%	46.4%	45.7%	41.3%
2. Rely on personal memory?	11.5	8.9	10.9	11.2
3. Reference tax tables or special lists?	8.8	16.1	15.2	10.3
4. Rely on marked goods?	0.3	—	—	0.2
5. Know that everything sold is taxable?	23.1	16.1	15.2	21.5
6. Some other way?	14.2	10.7	10.9	13.5
7. (DK/Refuse)	2.1	1.8	2.2	2.1
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

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

7. Are any of your sales also subject to a local sales and use tax?

1. Yes	42.4%	44.8%	43.2%	42.7%
2. No	55.0	51.7	52.3	54.3
3. (DK/Refuse)	2.7	3.4	4.5	2.9
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

7a. How many local jurisdictions have sales and use taxes that you must collect? (If "yes" in Q#7.)

1. One	45.6%	43.5%	44.4%	45.2%
2. Two	23.4	26.1	16.7	23.1
3. Three	7.0	4.3	11.1	7.0
4. Four or more	2.6	8.6	11.2	4.0
5. (DK/Refuse)	21.6	17.4	16.7	20.6
Total	100.0%	100.0%	100.0%	100.0%
N	85	57	50	192

7b. (Think of the local jurisdiction where you have the most sales.) Except for the actual tax rate, does the local sales and use tax have essentially identical, similar, dissimilar, or totally different rules and coverages than your state sales tax?

1. Identical	17.7%	29.2%	15.0%	18.8%
2. Similar	50.6	37.5	55.0	49.5
3. Dissimilar	5.7	12.5	5.0	6.4
4. Totally different	10.8	8.3	10.0	10.4
5. (DK/Refuse)	15.2	12.5	5.0	14.9
Total	100.0%	100.0%	100.0%	100.0%
N	85	57	50	192

8. Are you required to collect and file state sales tax in a state other than your own?

1. Yes	4.8%	7.0%	17.4%	6.3%
2. No	94.4	93.0	78.3	92.6
3. (DK/Refuse)	0.8	—	4.3	1.1
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

9. Do you sell goods or services directly over the Internet?

1. Yes	11.0%	7.0%	17.8%	11.2%
2. No	89.0	93.0	82.2	88.8
3. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

10. In the last five years, have you overpaid sales taxes and requested a refund or an adjustment to current taxes?

1. Yes	17.4%	19.3%	20.0%	17.9%
2. No	79.4	77.2	73.3	78.5
3. (DK/Refuse)	3.2	3.5	6.7	3.6
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

10a. The last time overpayment occurred, was the primary reason for it: (If “Yes” in Q#10.)

1. Unclaimed deductions for an unfulfilled transaction or bad debts				18.1%
2. Taxes paid on an exempt transaction				13.3
3. Clerical error				54.2
4. (Other)				6.0
5. (DK/Refuse)				8.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	33	24	22	79

10b. Was it very difficult, somewhat difficult, not too difficult, or not at all difficult to obtain the requested refund or adjustment?

1. Very difficult				7.2%
2. Somewhat difficult				39.8
3. Not too difficult				16.9
4. Not at all difficult				31.3
5. (DK/Refuse)				4.8
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	33	24	22	79

11. In the last five years, has a state agency audited your sales tax records?

1. Yes	18.5%	24.6%	44.4%	21.7%
2. No	78.3	73.7	53.3	75.4
3. (DK/Refuse)	3.2	1.8	2.2	2.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

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

12. Are you allowed to keep a certain percentage of the sales tax as compensation for collecting it?

1. Yes	19.0%	17.5%	23.9%	19.3%
2. No	77.2	75.4	69.6	76.3
3. (DK/Refuse)	3.8	7.0	6.5	4.4
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

12a. Is the amount more than your costs, the same as your costs, somewhat less than your costs or a lot less than your costs? (If "yes" in Q#12.)

1. More				4.4%
2. The same				20.0
3. Somewhat less				26.7
4. A lot less				42.2
5. (DK/Refuse)				6.7
Total	100.0%	100.0%	100.0%	100.0%
N	37	21	27	85

13. Are your sales BEST characterized as involving lots of transactions at relatively small amounts per transaction such as a diner, or fewer transactions involving large amounts per transaction such as in an auto dealership?

1. Many, small	48.8%	50.0%	46.7%	48.7%
2. Few, large	34.2	34.5	37.8	34.6
3. (Many, large)	5.9	6.9	8.9	6.3
4. (Few, small)	5.7	3.4	4.4	5.3
5. (DK/Refuse)	5.4	5.1	2.2	5.2
Total	100.0%	100.0%	100.0%	100.0%
N	200	129	116	445

14. Are your sales exempt from sales and use tax PRIMARILY because they are: (If "None" in Q#1.)

1. Goods or services sold outside the United States	0.4%	—%	—%	0.3%
2. Goods or services sold outside your state	5.0	—	3.0	4.4
3. Sales to governments or non-profits	2.2	3.3	6.1	2.6
4. Exempt services	56.1	50.0	42.4	54.3
5. Sales to "non-end-users" such as another business	15.8	30.0	24.2	17.9
6. (Other)	12.9	13.3	21.2	13.8
7. (DK/Refuse)	7.5	3.3	3.0	6.8
Total	100.0%	100.0%	100.0%	100.0%
N	150	72	84	306

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

15. In the last five years, has a state agency audited your records to determine if you owed any sales and use tax?

1. Yes	14.6%	10.0%	24.2%	15.2%
2. No	80.0	86.7	72.7	79.9
3. (DK/Refuse)	5.3	3.3	3.0	5.0
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	150	72	84	306

16. Though you don't collect sales and use tax now, have you had to collect it at some other time within the last five years?

1. Yes	4.3%	6.7%	9.4%	5.0%
2. No	93.9	93.3	90.6	93.5
3. (DK/Refuse)	1.8	—	—	1.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	150	72	84	306

Demographics

D1. Is your primary business activity:

1. Construction?	12.6%	12.6%	11.8%	12.5%
2. Manufacturing?	7.2	14.9	14.5	8.7
3. Wholesale?	4.3	5.7	7.9	4.8
4. Retail?	21.7	24.1	19.7	21.7
5. Transportation?	3.2	3.4	3.9	3.3
6. Communication?	7.4	4.6	3.9	6.8
7. Financial Services?	7.5	6.9	5.3	7.2
8. Services?	32.0	25.3	30.3	31.1
A. Non-professional, e.g., lodging, auto repair, garages, recreation	(28.0)	(21.1)	(36.4)	(28.2)
B. Professional, e.g., health, legal, education, engineering	(41.5)	(42.1)	(36.4)	(41.0)
C. Business, e.g., advertising, mail, employment agencies, computer services, security, equipment rental	(10.9)	(10.5)	(9.1)	(10.7)
D. Personal, e.g., laundries, beauty shop, photography, funeral services, child care	(19.2)	(26.3)	(13.6)	(19.2)
E. (Other/D/K)	(0.5)	(—)	(4.5)	(0.8)
9. Agriculture, forestry, fishing?	3.8	1.1	2.6	3.4
10. (Other)	—	—	—	—
11. (DK/Refuse)	0.3	1.4	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D2. Over the last two years, have your real volume sales:

1. Increased by 30 percent or more?	13.5%	13.6%	15.6%	13.7%
2. Increased by 20 to 29 percent?	7.7	11.4	14.3	8.7
3. Increased by 10 to 19 percent?	22.9	27.3	27.3	23.7
4. Changed less than 10 percent one way or the other?	26.4	25.0	24.7	26.1
5. Decreased by 10 percent or more?	21.5	15.9	14.3	20.2
6. (DK/Refuse)	8.1	6.8	3.9	7.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D3. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?

1. Yes	25.0%	6.8%	3.9%	24.0%
2. No	74.1	92.0	94.8	78.0
3. (DK/Refuse)	0.9	1.1	1.3	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D4. How long have you owned or operated this business?

1. <6 years	25.2%	18.6%	19.7%	24.0%
2. 6-10 years	27.3	16.3	19.7	25.4
3. 11-20 years	24.3	33.7	26.3	25.5
4. 21-30 years	12.7	16.3	17.1	13.5
5. 31 years+	8.6	12.8	14.5	9.6
6. (DK/Refuse)	1.9	2.3	2.6	2.0
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D5. What is your highest level of formal education?

1. Did not complete high school	2.0%	2.2%	1.3%	2.0%
2. High school diploma/GED	22.4	22.5	15.4	21.7
3. Some college or an associates degree	22.8	18.0	19.2	22.0
4. Vocational or technical school degree	4.3	3.4	1.3	3.9
5. College diploma	27.6	33.7	42.3	29.6
6. Advanced or professional degree	19.4	18.0	19.2	19.3
7. (DK/Refuse)	1.5	2.2	1.3	1.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D6. Please tell me your age.

1. <25	2.3%	4.5%	2.6%	2.6%
2. 25-34	7.5	10.2	7.8	7.8
3. 35-44	23.8	21.6	22.1	23.4
4. 45-54	33.3	28.4	36.4	33.1
5. 55-64	21.7	27.3	22.1	22.3
6. 65+	10.9	8.0	9.1	10.4
7. (DK/Refuse)	0.5	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

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

D7. What is the zip code of your business?

1. East (zips 010-219)	20.2%	17.0%	15.6%	19.5%
2. South (zips 220-427)	20.6	20.5	22.1	20.7
3. Mid-West (zips 430-567, 600-658)	26.5	27.3	27.3	26.7
4. Central (zips 570-599, 660-898)	18.4	22.7	19.5	19.0
5. West (zips 900-999)	14.3	12.5	15.6	14.2
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D8. What were your gross receipts in your most recent calendar or fiscal year?

1. <\$100,000	20.9%	3.4%	2.5%	17.2%
2. \$100,000-\$249,999	20.9	3.4	2.5	17.2
3. \$250,000-\$499,999	14.6	9.0	3.8	12.9
4. \$500,000-\$999,999	13.3	15.7	9.0	13.2
5. \$1 million-\$4.9 million	8.7	41.6	37.2	15.0
6. \$5 million - \$9.9 million	0.9	3.4	9.0	2.0
7. \$10 million or more	0.3	3.4	23.1	2.8
8. (DK/Refuse)	20.4	20.2	12.9	19.6
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	200	751

D9. Sex

Male	85.1%	86.4%	87.2%	85.5%
Female	14.9	13.6	12.8	14.5
Total	100.0%	100.0%	100.0%	100.0%
N	350	201	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 March 28 - April 23, 2002 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 was 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 ran-

dom 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 were 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.

This survey included liability and administration of the state sales tax as its topics. Five small states, Alaska, Delaware, Montana, New Hampshire, and Oregon do not have a sales tax. As a result, the sample did not include small employers from those states or about three percent of the population. Any impact from this exclusion will therefore be negligible.

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	350	47
10-19	82	11	200	27	201	27
20-249	75	10	200	27	200	27
All Firms	750	100	750	101	751	101

*Sample universe developed from special runs supplied to the NFIB Research Foundation by the Bureau of the Census (1997 data).

The Sponsors

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. Included are analyses of selected proposed regulations using its Regulatory Impact Model (RIM). The Foundation's functions were recently transferred from the NFIB Education Foundation.

Wells Fargo provides capital and financial services to more than 1.5 million businesses with annual sales up to \$10 million in the 50 United States and Canada. As a leading financial services provider to the small-business market, Wells Fargo is the largest small-business lender in the nation of loans up to \$100,000. Through its targeted loan programs alone, Wells Fargo has lent more than \$9 billion to African-American-, Latino-, and women-owned businesses.

Wells Fargo & Company is a \$280 billion diversified financial services company providing banking, insurance, investments, mortgage and consumer finance through more than 5,400 stores, over 6,000 ATMs, the Internet (<http://www.wellsfargo.com>) and other distribution channels across North America.



1201 "F" Street NW
Suite 200
Washington, DC 20004
nfib.com



550 California Street
11th Floor
San Francisco, CA 94104
wellsfargo.com