



Statement of Roger Harris  
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Tackling Tax Complexity: The Small Business Perspective

Joint United States Senate Committee on Finance and  
United States Senate Committee on Small Business and  
Entrepreneurship Roundtable

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216 Hart Senate Office Building



Chairman Wyden, Ranking Member Crapo, Chairman Cardin, Senator Young, and members of both the Senate Finance Committee and Senate Committee on Small Business & Entrepreneurship, thank you for the opportunity to testify today on the struggles that small businesses face when it comes to tax complexity.

My name is Roger Harris and I am the President of Padgett Business Services based in Athens, Georgia.

Padgett is a national accounting, advisory, and tax preparation company with approximately 200 offices across the U.S. that has served tens of thousands of small business clients for over 50 years. Prior to becoming President of Padgett in 1992, I ran one of the largest Padgett franchises with the company for 10 years. I have long been passionate about the intersection of small business and taxation.

I had the honor of serving as chairman of the Internal Revenue Service Advisory Council (IRSAC) in 2002 and 2003 and always welcome the opportunity to provide feedback to Congress on how to improve our tax system for small businesses. Throughout the pandemic, we saw first-hand the positive impacts that many of the legislative changes had on small businesses and other taxpayers as well as some of the unintended consequences of those policies.

I want to thank both of the committees for putting together this hearing and for all the work you have done and continue to do on behalf of small businesses and taxpayers. I also want to acknowledge the thousands of small businesses that Padgett has worked with over the years for their hard-work and invaluable contributions to the economy.

Our daily work at Padgett is primarily with what would be considered "mom and pop" small businesses. Our clients on average have less than 20 employees and come from a wide range of industries. According to the SBA's Office of Advocacy, there are currently over 5.4 million businesses with between 1 and 19 employees. Individually they are small, but collectively they represent a major portion of our economy and jobs. There are 61.7 million small business employees in the U.S., comprising of over 46% of U.S. employees.<sup>1</sup>

Small business owners get into business to do the one thing they love and the 99 things they hate. Dealing with the complexity of our tax system often ranks high on that list of 99.

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<sup>11</sup> <https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-US.pdf>



I do think there are steps that can be taken by Congress, by the SBA, and by the IRS that can help alleviate some of that complexity and better meet small businesses where they are.

### **Role of the SBA**

First, the SBA is a huge resource that we must continue to utilize and leverage when it comes to communicating with small businesses. While the SBA and its resource partners cannot replace the role of accountants and trusted tax advisors, they can play a prominent role in getting tax information out to small businesses that is both timely and easy to understand. Whether a business is just forming or is trying to survive a challenging time, the Small Business Development Centers, Women's Business Centers, SCORE Business Mentors, and Veteran Business Outreach Centers can provide invaluable counseling to small businesses free of charge. They have a unique ability to meet businesses where they are and speak their language. Often, when the IRS releases changes or requirements on small businesses, it is written in a way that is difficult for small business owners to understand. I believe SBA's resource partners could play an even more robust role in delivering information on tax changes and opportunities to small businesses in a concise and comprehensible way.

The Office of Advocacy at the SBA also plays a key role in making sure proposed regulations coming out of the IRS and Treasury fully consider the impact on small businesses. SBA's Office of Advocacy has an attorney specifically assigned to monitor tax regulations and help ensure the IRS and Treasury are considering potential flexibilities for small businesses during the rulemaking process. SBA's Office of Advocacy can and should continue to play an important role in preventing unnecessary regulatory burden and complexity on small businesses by helping to stop it before it happens.

### **Role of Tax Professionals**

Most small businesses rely heavily on a tax professional or outside advisor to help them navigate their taxes. However, our tax administration system does not always make it easy for tax professionals to represent small businesses. There are not adequate digital tools at the IRS for tax professionals representing small businesses and getting a power of attorney or other authorization on file can be a long and time-consuming process. The IRS must prioritize upgrading their systems and building more tools for tax professionals, which in turn will have an



outsized impact on small business as they navigate the tax system. I have long advocated that there needs to be adequate funding at the IRS for technology and customer service.

One area where Congress could help is giving the IRS the authority to regulate tax preparers. Currently, anyone can hold themselves out as a tax preparer and charge for their services. This often leads to unqualified individuals making mistakes and harming the small businesses that hire them. There must be more oversight to ensure a basic level of competence and ethical standards among those preparing taxes for businesses and individuals. I appreciate proposed legislation in the past by Chairman Cardin and others to address this issue.

There is often no difference between ill intent and ignorance when it comes to taxes – they both can have the same negative result on the government and the taxpayer.

### **Tax Complexity for Small Businesses**

With today's tax code, it is easy to stress the need for simplicity, but the process of making that a reality is far from easy. Nobody complains about complexity in the tax code when it saves them money, they only complain when it costs them money. That said, the more Congress and the IRS can support and allow cash basis accounting for small businesses, the more straightforward taxes will be for them. I applaud the change that was made in the Tax Cuts and Jobs Act that allows businesses with average annual gross receipts of \$25 million or less to use the cash method of accounting, sparing many small businesses from having to comply with a variety of burdensome requirements. The one record that all businesses understand is their checkbook. They know things are going well when their checkbook is going up and bad when it is going down. The more the tax code can follow that method of understanding the simpler it will be for small businesses.

Despite the fact that most small business owners pay their taxes on their individual return, another important issue for small businesses involves the choice of business structure. Decisions on how to organize, whether as a sole proprietorship, partnership, corporation, S corporation, or Limited Liability Company (LLC), all impact the complexity a small business will have to navigate. Nevertheless, these are often choices that small businesses can leverage for their own unique advantages, but they must be informed and receive good advice. I think this is one area where SBA's resource partners can play an important role in advising new businesses.



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In addressing tax complexity for small businesses, however, I think the most important thing for policymakers is learning from past actions and examining what worked well and what did not. For example, with policies that were implemented during COVID-19, there are innumerable lessons to be learned as we contemplate future policy changes. It is important to get all of the stakeholders at the table to examine if there are choices we would make differently next time. The Employee Retention Tax Credit (ERTC) is an example of a small business tax policy with tremendous upsides and challenges that would be well-suited for a thorough analysis to help inform future policy. Ideally, we could get to a place where the IRS does not just get better at solving problems, but gets better at preventing them.

In closing, I think this hearing today is a step in the right direction. I applaud the committees for hosting it and was honored to participate along with these accomplished small business owners.