

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

**NFIB**  
The Voice of Small Business.®

**Testimony by Henry P. Van De Putte  
Owner of Dixie Flag Manufacturing Company**

House Small Business  
Subcommittee on Regulations, Healthcare and Trade  
on the date of July 30, 2008  
*on the subject of*

**Regulatory Burdens on Small Firms:  
What Rules Need Reform?**

Chairwoman Gonzalez and Members of the House Committee on Small Business:

I appreciate the opportunity to be here today. As a member of the NFIB since 1980, a former board member, and a founding member of the NFIB Texas Leadership Council, I am pleased to offer my testimony. My business, Dixie Flag Manufacturing Company is a small family business in San Antonio. My parents and my grandmother started the company in my bedroom in 1958, so this year we are proud to be celebrating our 50th year in business. In that 50 years we have had the privilege to provide jobs and opportunities to some terrific men and women and to be the first employment experience for a number of our employees' children. I come here today not only representing small business owners, but also the millions of people who depend on small businesses for their livelihood.

At the outset, I want to commend the Committee for holding this hearing today on the Office of Advocacy's Regulatory Review and Reform Initiative, or R3 -- an effort to identify outdated and ineffective federal regulations. The complexities of the federal regulations are especially onerous to small businesses, so I appreciate that the Committee's interest in addressing this important topic.

## **INTRODUCTION**

NFIB's national membership spans a wide range of small business operations, from one-person enterprises to firms with hundreds of employees. In fact, the average NFIB member employs eight to ten people and has gross receipts of about \$500,000 per year.

While there is no one definition of a small business, all NFIB members have one thing in common; their businesses are independently owned. Clearly, we are talking about the truly small businesses—businesses whose priorities and abilities to handle regulatory challenges are greatly different from their larger counterparts.

## **REGULATORY BURDEN**

Earlier this year, the SBA Office of Advocacy released the 2008 Top 10 Rules for Review and Reform, an effort to identify outdated and ineffective federal regulations. Drawn from over 80 rules nominated by small business owners, the recommendations were transmitted to the various federal agencies for further action.

The r3 program strikes right at the heart of one of the major burdens facing America's small business, the cumulative federal regulatory burden. Being a small-business owner means, more times than not, you are responsible for everything, including ordering inventory, hiring employees and dealing with the

mandates imposed by federal, state and local governments. That is why government regulations, and the paperwork they generate, should be as simple as possible. The less time a small business spends with "government overhead," the more they can spend improving their business, employing more people and growing America's economy.

Unreasonable government regulation, especially paperwork burdens, continues to be a top concern for small business owners like me. Regulatory costs per employee are highest for small firms, and our members consistently rank those costs as one of their most important issues.

A recent report commissioned by the Small Business Administration's Office of Advocacy estimated the regulatory compliance costs for firms with fewer than 20 employees. Five years ago, that cost averaged \$6,975 per employee, per year, but now that figure has risen by nearly 10 percent, to \$7,647 per employee, per year. Put another way, for an NFIB member with five employees, regulatory costs now approach a total of nearly \$40,000.

The r3 program plays an important role in regulatory reform, urging agencies to write regulations that are easy to read and understand, and to review the impact each regulation has on small business. For its part, Congress plays an important oversight role by looking at both new federal regulations and changing those already on the books. To keep up with the changing environment, regular evaluation is imperative to find outdated, ineffective and onerous regulations.

## **STANDARD HOME OFFICE DEDUCTION**

With respect to the specific recommendations of the r3 program, one provision is of particular interest to NFIB members is the Standard Home Office Deduction. This issue is of particular interest to me because my parents started Dixie Flag Manufacturing Company in my bedroom in 1958. Dixie Flag now employs 45 people, but then it was just my dad, my mom and my grandmother.

Home based businesses are one of the fastest growing segments of our economy, representing 53 percent of all small businesses. Entrepreneurship is especially booming among minority groups. According to the latest U.S. Census Bureau data, the number of minority owned businesses is growing four times faster than all U.S. firms and currently totals more than 3 million companies.

While the rate of new and home-based business continues to grow, the existing home deduction remains burdensome and complicated. It requires a small business owner to determine how much of their house is used for business and to keep detailed records that substantiate the deduction.

The complicated record keeping now required by the IRS to qualify for a home office deduction is a barrier to many who would qualify but do not have the time

and staff to do the paperwork. That barrier would be removed if a "standard deduction" for home-based businesses were allowed.

NFIB members believe that small, home-based businesses should have the option of either a standard home office deduction, or using the current system. The standard deduction would allow the business owner to claim a deduction he or she is entitled to, reduce the filing burden, and ultimately improve tax compliance.

In conclusion, I appreciate the opportunity to comment on the r3 program and the impact of federal regulations on small businesses owners. Along with the other small, independent business owners who make up the membership of the NFIB, I hope that Congress will continue to take significant steps to reduce this burden and that federal agencies will adopt the r3 recommendations suggested by SBA's Office of Advocacy.

Thank you again for the opportunity to testify. I look forward to answering any questions you might have.