



Employee Size of Firm	Interviews Expected	Percent Distribution	Interviews Completed	Percent Distribution
1-9	593	79	350	57
10-19	82	11	300	26
20-249	75	10	300	

National Small Business Poll

NFIB National

Volume 6, Issue 1
2006

Small Business Poll

Payroll

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.

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NFIB National
Small Business
Poll



Payroll

Volume 6, Issue 1
2006
ISSN - 1534-8326

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NFIB

The Voice of Small Business.®

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National Small Business Poll



Payroll

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Executive Summary

- Seventy-two (72) percent of small-business employees work full-time. Forty-five (45) percent of small-business owners pay their full-time employees weekly; 26 percent pay them every other week; 13 percent, twice a month; 6 percent, monthly; and, the remainder at other intervals or differing intervals for different full-time employees.
- Ninety (90) percent pay their part-time employees at the same time that they pay their full-time employees.
- Most small employers (64%) still prepare payroll in-house. However, 19 percent use a payroll services company and another 14 percent hire an outside accountant or bookkeeper to prepare theirs. Those with the smallest enterprises are most likely to do payroll in-house and those with the largest to send it out. Even then, half of the largest, those businesses employing 20 or more, do payroll in-house.
- The owner/manager is the person who most often (55%) does payroll when it is prepared in-house. An employee does it in 29 percent of cases and an unpaid spouse or family member in 14 percent.
- Only 62 percent of those doing payroll in-house use an electronic spreadsheet of some kind to calculate payroll; 33 percent have their payroll system electronically tied to their accounting software. Size-of-business is highly associated with a computerized payroll system.
- The most common reason given (37%) for doing payroll in-house is that it is the cheapest way. Owners of the smallest are disproportionately likely to mention this reason. Another 32 percent say keeping payroll in-house gives them greater control and better oversight.
- The data to prepare payroll is often sent to vendors on paper rather than electronically. About half who use an outside accountant or bookkeeper submit their payroll records on paper. One in four who use a payroll services company submit theirs on paper.
- The most frequently cited reason for using a payroll service company is that it takes care of everything; it is comprehensive (45%). Other common reasons include: the most effective way to do payroll (17%), allows smoother work flow for in-house personnel (14%), and yields fewer mistakes or errors (11%).
- Forty-two (42) percent report that they deposit federal payroll taxes quarterly, 27 percent monthly, and 13 percent more frequently.
- Twenty-six (26) percent offer their employees an option to deposit their payroll checks directly into a checking or savings account. Fifty-seven (57) percent of employees take advantage of the option.
- Sixty-three (63) percent of small employers who have direct deposit for employees say it has been generally helpful to the business compared to only 1 percent who consider it a hassle. The principal reason for having or not having direct deposit is employee interest or lack thereof.
- The W-4 is one of the least burdensome paperwork requirements of the federal government.

Payroll

At the intersection of human resources and finance, payroll is a critical and sensitive matter to both employees and employers. Payroll is also a business operation that routinely brings small business into contact with tax authorities, and the failure to deposit payroll-related taxes in a timely fashion is a frequent cause of tax penalties. Payroll's efficient and timely administration, therefore, is a crucial, if mundane, task. Computerization has undoubtedly eased the process and reduced errors. Many small-business owners have engaged outside vendors to prepare payroll for them changing the nature of the process for small-business owners as a group. Still, doing payroll, hopefully in the most efficient and mistake-free manner possible, is a basic responsibility for all employers, even the smallest. For that reason, the current issue of the *National Small Business Poll* addresses Payroll.

Seventy-two (72) percent of those working in small businesses work full-time (Q#1). The remainder work part-time. The smallest businesses are the most likely to be composed either entirely of full-time or entirely of part-time employees, but the average is similar across all three size classes of businesses examined. The respondent defines full-time work for current purposes by any criteria he chooses rather than a particular number of hours worked. Part-time employees are the residual of those who do not work full-time.

Pay Period

Pay day occurs frequently in small businesses. Forty-five (45) percent pay their full-time employees weekly (Q#2). Another 26 percent pay every other week (26 pay periods in a year) and 13 percent pay twice a month (24 pay periods in a year). Only 6 percent pay once a month and most of those are among the smallest. Seven percent pay different full-time employees at different intervals. The data do not address the reason. However, the practice appears in virtually all industries, though it appears most common in construction.

Those employing people part-time are very likely (90%) to pay them over the same

interval that they pay their full-time employees (Q#3). Businesses employing 10 or more are even more likely to do so. There is a 96 percent chance that they will pay full- and part-time employees at the same time. But when small employers do pay at different intervals, it appears part-time employees get paid somewhat less frequently (Q#3a).

Preparing Payroll

Sixty-four (64) percent of small employers prepare their payroll in-house (Q#4). Fourteen (14) percent send theirs out to an accountant or bookkeeper of some type to do payroll for them. Lastly, 19 percent say that they send theirs to a payroll services company. The size of a business is highly related to the way its owner(s) prepares payroll. Owners of the smallest businesses are substantially more likely to keep their payroll in-house (68%) while owners of the largest are much less likely to do so (49%). The opposite is true with payroll services. Owners of the largest are substantially more likely to use them (38%) than owners of the smallest (15%). Yet, even among the largest, preparing payroll in-house is the most common way to perform the task.

a. In-house

The owner/manager does payroll in 55 percent of the enterprises where it is done in-house or in one-third of all cases (Q#4a). An employee does it 29 percent of the time while an unpaid spouse or other family member does in 14 percent of cases. Owner/managers have the duty most frequently in the smallest while an employee(s) has it most frequently in the largest.

The typical small business spends about an hour every payroll period to complete the process (Q#4a1). The process includes everything from reviewing time cards or similar information to preparing checks and associated tasks. That figure varies substantially by firm size. Those employing 20 or more people typically look at more than one-half day per pay period.

Computerization has made payroll preparation a much easier task than it once was. However, only 62 percent of those doing payroll in-house use some type of electronic spreadsheet to calculate payroll, deductions, net pay and the like (Q#4a2A). Use is highly associated with firm size. Most (92%) of the largest, small businesses employ an electronic spreadsheet while comparatively few (57%) of the smallest, small businesses do. Similarly, while 33 percent of all those doing payroll in-house have their payroll system tied to a larger accounting system, the figure rises to 66 percent among the largest and falls to 28 percent among the smallest (Q#4a2B).

Another view of the sophistication of an in-house payroll operation is the means used to prepare employee paychecks. Half print them and half make them out manually (Q#4a2C). Again, a very strong association with firm size appears. Some may object to the question on the grounds that many businesses directly deposit employee paychecks. Yet, even when businesses provide employee-direct deposit, all employees usually do not take advantage of it. When examining only those with direct deposit, 47 percent print checks while 52 percent make them out manually. Any effect caused by direct deposit, therefore, appears modest.

Preparing payroll in-house may seem antiquated, but small employers offer a variety of rational reasons for doing so. Thirty-seven (37) percent claim it is cheaper (Q#4a3). Owners of the smallest are most

likely to mention that reason. Certainly, the in-house cost is minimal when only a handful of employees must be paid. Another 3 percent specifically mention firm size. The second most frequently cited reason (32%) for keeping payroll in-house is that the owner has greater control or better oversight of the process. Another 9 percent note that once all the records and information are pulled together, the hard part is done. Seven percent simply view the process as easier when maintained in-house.

b. Sending Payroll Out

Payroll can also be prepared by an outside vendor. The two most common types are individually hired people, typically accountants or bookkeepers, and payroll services firms. Small-business owners use both.

The amount paid for payroll services by the 14 percent who engage an outside accountant or bookkeeper is typically small. Thirty-one (31) percent pay less than \$100 for each payroll they do (Q#4b). Twenty (20) percent go over the \$100 figure. However, 35 percent do not know, suggesting that their cost is relatively modest; they would be aware of a significant expense. Another 13 percent say costs are rolled into a single payment for financial services, most likely accounting fees. Sixty-one (61) percent pay a flat fee for these services, while 24 percent pay an hourly rate, and the remainder do not know (Q#4b1).

About half who use an outside accountant or bookkeeper transmit their records to the vendor electronically (43%) and half (42%) on paper (Q#4b2). The remainder are not certain. While it is possible that some vendors cannot accept electronic records transmission, that seems unlikely for businesses that do payroll. As a result, it appears that about half who send their payroll records to this type of vendor do not have a computerized payroll system. Unfortunately, paper transmission is not confined to the very smallest. That means a number of larger firms also appear to work with a manual payroll system.

Once payroll is sent out, the accountant or bookkeeper can complete the process by finishing the paperwork and managing all financial transactions such as making payroll tax deposits on behalf of their client. Or, the client can take the process back in-house and

complete the financial portion of it. Fifty-five (55) percent have their accountants or bookkeepers conduct all necessary financial transactions; 44 percent bring the financial transactions back in-house (Q#4b3). The latter group appear to engage in a rather awkward process, but individual circumstances may make the facts otherwise.

The profile of the payroll process when the vendor is a payroll services company is different than when the vendor is an accountant/bookkeeper. The 19 percent who use a payroll services company to prepare their payrolls are typically larger and more technologically oriented.

The cost of using a payroll services company is not clear. When asked the charge of payroll services company per month, 42 percent respond that they do not know (Q#4c). Twenty-three (23) percent charge less than \$100 per month while 34 percent charge more than \$100. There are several potential reasons for the large non-response. The first is that they are not charged by the month; they are charged by the payroll and few do payroll monthly. The second is that payroll cost is comparatively small; the amount is not enough to draw their attention. Others are also possible. In any event, question results do not prove particularly helpful.

Those who use payroll services companies are considerably more likely to transmit their records electronically to their vendor than those who use an accountant/bookkeeper. Sixty-one (61) percent do so with the smallest also using computerization rather than paper in the overwhelming majority of cases (Q#4c1). But even then, 25 percent report transmitting their records on paper with another 14 percent uncertain. These data suggest that a notable share of small employers who use payroll services firms do not take full advantage of the administrative efficiencies they bring.

The most frequently cited reason (45%) that 19 percent choose to use payroll services companies is that these providers take care of everything; they offer a comprehensive service (Q#4c2). Other reasons offered are tied to efficiencies that payroll services help create. For example 17 percent say that it is the most effective way to do payroll; another 14 percent say that using payroll service companies allows a smoother work flow for in-house personnel; and 11

percent say that they produce fewer mistakes or errors.

Payroll Tax Deposits

Employers must withhold federal income and payroll taxes from employee paychecks, add their share of payroll taxes, and remit them to the federal government on a periodic basis. Those with less tax liability remit theirs less frequently than do employers with greater tax liability. Forty-two (42) percent report that they send in theirs quarterly; 27 percent monthly, and 13 percent more frequently (Q#5). One percent takes advantage of a new rule that allows those with de minimis liability to remit their taxes annually.

The IRS would like to institute a rule that forces all businesses to remit employee withholding and payroll taxes electronically. That idea encounters the reality of the market. Thirty-two (32) percent use an Internet banking arrangement that allows them to remit their payroll taxes electronically (Q#5a). While this does not define whether a small business could without considerable difficulty comply with an IRS edict demanding electronic filing, the data strongly suggest that such action would cause widespread disturbances.

Direct Deposit

Twenty-six (26) percent offer their employees an option to deposit their payroll checks directly into a checking or savings account of some type (Q#6). Presence of the facility is closely tied to the employee size-of-business. Employee direct-deposit is offered in one of five (21%) businesses employing fewer than 10 people compared with over three in five (62%) in businesses employing 20 or more.

About 57 percent of all employees use direct deposit. In the smallest enterprises, there is a tendency (75%) for all employees to participate or none to participate (Q#6a). The largest show the opposite tendency. Seventy-two (72) percent have some combination of employees participating and not.

Just over half (53%) of those with direct deposit allow employees to make deposits into more than one account (Q#6a). Thus, an employee can have his/her paycheck sent to a savings and checking account. The number of accounts does not seem an issue for this group of small employers. While 12

percent say that they allow between two and five accounts per employee, most do not really know (Q#6b1). Eighty-four (84) percent say the issue, that is to say, the number of accounts over which a single employee can split his/her paycheck, has never arisen. Still, 38 percent do not permit split accounts. Employers will send employee paychecks to a savings or checking account, but not both.

Thirty-eight (38) percent will send multiple deposits to two or more financial institutions; 37 percent will not and 25 percent do not know (Q#6c). Obviously, if a small employer limits deposits to only one account, multiple institutions are irrelevant. But the 52 percent who will deposit in more than one account and the 38 percent who will deposit in one institution means that about 15 percent permit split deposits, but only at the same place.

Small-business owners who use direct deposit like it. Sixty-three (63) percent say that direct deposit has generally been helpful to their businesses while another 32 percent say that it has been inconsequential (Q#6e). Just 1 percent consider it a hassle.

The single most frequently cited (most important) reason for instituting direct deposit (35%) is that it is administratively easier and more reliable than the alternative (Q#6d). However, a series of employee-related reasons are more prevalent. Twenty-nine (29) percent say that they instituted direct deposit because employees asked for it; another 12 percent report they did so because employees did not have a place to cash their checks; still, another 5 percent say it helps employees manage their personal finances. Thirteen (13) percent give other, scattered most important reasons.

Those without direct deposit are more likely to offer lack of employee demand as the most important reason for not having it than any other. Thirty-five (35) percent specifically cite lack of employee demand. However, 16 percent say that they never thought about it which is the lack of employee demand in another form. Administrative issues are also an impediment. One-third (33%), concentrated among owners of firms employing fewer than 10, believe that they are too small. Inadequate computerization (2%) could be a corollary to the size problem. But only 6 percent offer the paper-

work and general hassle involved as the primary reason for not having direct deposit.

Federal Payroll Forms

Employees report the number of exemptions on their W-4 form. W-4 exemptions and projected earnings determine the amount of federal income taxes their employer withholds from their payroll checks. (Most states and sometimes localities also have their withholding requirements.) If employees want a different amount withheld, they must change their W-4 and resubmit the form to the employer. The employer must comply with an employee's wishes with exceptions for potential abuses.

Small employers report that considering both the frequency of filing (including changes) and associated administrative requirements, the W-4 is one of government's least burdensome paperwork requirements. Seventy-five (75) percent believe the W-4 is one of the least difficult, including 50 percent who believe that strongly (Q#7). Only 5 percent believe the W-4 is one of the most burdensome. Twenty (20) percent are undecided. Thus, the W-4 imposes minimal burden on the payroll process.

The W-5 is the form employees eligible for the Earned Income Tax Credit (EITC) must file with employers. It, like the W-4, may or may not be burdensome on the payroll process. However, a determination is not presently possible due to the small number of cases available to analyze. Only 1 percent say that they have any employees who claim eligibility for the EITC, though the figure rises to 5 percent among the largest, small businesses (Q#8).

Retirement/Pension Plans

Part of the reason to undertake the survey on payroll is a legislative proposal that requires employers without retirement/pension plans to offer employee-direct deposit. Assessment of the issue from a small-business perspective requires data on the presence of a retirement/pension plan.

Twenty-seven (27) percent of small businesses offer an employee retirement plan (Q#9). However, that proportion is almost double the proportion in enterprises employing 10 or more people.

The principal type of retirement plan offered is the 401(k). Forty (40) percent of those offering a plan provide a 401(k) (Q#9a). The 401(k) with its relative complexities is most popular in firms with 20 or more employees where it is the preference of 65 percent of owners. It is also common among smaller firms with the benefit. However, the 401(k) shares its popularity with the SIMPLE plan. About one-third of enterprises employing fewer than 20 have each one. Still, 15 percent of the largest report using a SIMPLE plan. The remaining types of retirement/pension plans have scattered use with SEP favored by 11 percent and Profit-Sharing by 10 percent.

Final Comments

Payroll would logically seem to be one of the first functions that is computerized in a small business. Yet, a surprisingly large number of owners, and not just owners of the smallest firms, continue to do payroll on paper. The reason for their failure to adopt technology to the task is not obvious from the data. But judging from the reasons given for keeping payroll in-house, it is likely associated with issues of confidence and control. Small employers simply do not want to make mistakes on such a critical matter. They know paper works and are not willing to risk change, given that preparing payroll in most firms, particularly very small ones, requires minimal time. What we do not know is the extent to which owners without computerized payroll also do not handle their other important business functions electronically.

Computer skills and confidence in those skills also appear in the limited number who offer employee-direct deposit. While employee demand for direct deposit appears to be the overriding influence on the actions of both employers who offer and do not offer it, computer facility and the construction of accounting systems are also factors. In fact, comparatively few use the Internet for any financial transactions.

Small employers try to keep payroll as simple as possible which explains why they pay full- and part-time employees on the same schedule, often limit the number of accounts and institutions to which direct deposits will be made, and typically prepare payroll in-house (cheap and easy). The anomaly is they pay frequently. Payroll in

nearly half of all small businesses is prepared 52 times a year and about as many do so 26 or 24 times a year. Such frequency raises administrative costs and complexity. While the survey did not question the reason for the frequency of payroll, it is likely tied to employee demand and custom. Payroll, therefore, remains a good example where small employers are likely to accede to the explicit or implicit demands of employees.

Payroll

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

	Employee Size of Firm			
	1-9 emp	10-19 emp	20-249 emp	All Firms
1. Of your _____ (number) employees, about how many are full time?				
1. None	15.2%	2.4%	1.3%	12.5%
2. 1 - 49 percent	6.4	16.9	18.7	8.7
3. 50 - 74 percent	17.8	18.0	13.3	17.4
4. 75 - 99 percent	6.9	21.7	28.0	10.5
5. 100 percent	53.6	41.0	38.7	50.8
6. (DK/Refuse)	—	—	—	—
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754
2. How frequently do you pay your full-time employees? (With full-time employees only in Q#1.)				
1. Weekly	45.8%	49.4%	33.3%	44.7%
2. Every other week	22.9	30.9	40.0	25.7
3. Twice a month	11.6	14.8	18.7	12.8
4. Once a month	7.2	1.2	1.3	5.9
5. Different employees at different intervals	8.0	3.7	6.7	7.3
6. Other interval	3.8	—	—	2.9
7. (DK/Refuse)	0.6	—	—	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	292	197	199	688
3. Do you pay your part-time employees with the same frequency that you pay your full-time employees?				
1. Yes	87.6%	95.7%	95.7%	90.2%
2. No	11.4	4.3	4.3	9.1
3. (DK/Refuse)	1.0	—	—	0.7
Total	100.0%	100.0%	100.0%	100.0%
N	112	116	124	352

3a. How frequently do you pay your part-timers? (If “No” in Q#3.)

1. Weekly	23.7%	—%	—%	23.4%
2. Every other week	16.9	—	—	18.5
3. Twice a month	11.0	—	—	10.5
4. Once a month	21.2	—	—	21.0
5. (Various)	21.2	—	—	21.0
6. (DK/Refuse)	5.0	—	—	5.6
Total	100.0%	100.0%	100.0%	100.0%
N	72	11	8	91

4. Do you do the payroll in-house, have an outside accountant or bookkeeper do it for you, or do you hire a payroll service company for that purpose?

1. In-house	68.0%	51.2%	49.4%	64.4%
2. Accountant/bookkeeper	14.5	15.9	9.1	14.1
3. Payroll service company	15.4	31.7	37.7	19.3
4. (Other)	0.9	1.2	2.6	1.2
5. (DK/Refuse)	1.1	—	1.3	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

4a. In your business, who does the payroll? (If “In-house” in Q#4.)

1. You do	61.2%	26.2%	12.8%	54.5%
2. An unpaid spouse or other family member	14.3	16.7	10.3	14.2
3. An employee does	22.9	57.1	76.9	29.9
4. (DK/Refuse)	1.7	—	—	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

4a1. About how many hours per pay period does it take to make out the payroll, including reviewing time cards or similar data, calculating pay and withholding taxes, preparing the checks, and other associated tasks?

1. One hour	52.0%	37.5%	8.1%	47.6%
2. Two hours	15.5	20.0	13.5	15.7
3. Three hours	6.7	15.0	13.5	7.9
4. Four hours	2.9	7.5	8.1	3.6
5. Five hours	1.2	2.5	8.1	1.8
6. Six to ten hours	7.6	7.5	24.3	8.9
7. Ten hours or more	5.6	—	21.6	6.2
8. (DK/Refuse)	8.5	10.0	2.7	8.3
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

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

4a2. Are most steps in your payroll computerized. For example,:

A. Do you use some type of electronic spreadsheet listing the employees by name, etc., their gross pay, tax deductions, other deductions if applicable, and net pay

1. Yes	57.1%	80.5%	92.1%	61.7%
2. No	41.4	17.1	7.9	36.9
3. (DK/Refused)	1.4	2.4	—	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

B. Is your payroll system electronically tied into a larger accounting system

1. Yes	27.6%	58.5%	65.8%	33.0%
2. No	71.0	41.5	31.6	65.6
3. (DK/Refused)	1.4	—	2.6	1.4
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

C. Do you print the checks instead of making them out manually

1. Yes	43.0%	78.6%	89.5%	49.5%
2. No	56.8	21.4	7.9	50.1
3. (DK/Refused)	0.2	—	2.6	0.4
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

4a3. Why do you continue to do your payroll in-house? Is the most important reason because: ?

1. You have greater control/better oversight	28.9%	43.6%	47.4%	31.5%
2. It's cheaper	39.2	28.2	18.4	36.8
3. Once information prepared to send out, hard work completed	8.1	10.3	13.2	8.7
4. (Easier)	7.2	7.7	2.6	6.9
5. (Small business/ few employees)	3.8	—	—	3.2
6. (Other)	11.3	10.2	13.1	11.7
7. (DK/Refuse)	1.5	—	5.3	1.2
Total	100.0%	100.0%	100.0%	100.0%
N	240	103	101	444

4b. Approximately, how much does the outside accountant or bookkeeper charge you every time he or she does your payroll? (If “Accountant/Bookkeeper” in Q#4.)

1. < \$100	32.9%	—%	—%	31.3%
2. \$100 or more	21.2	—	—	20.2
3. Rolled into a single payment for financial services	12.9	—	—	13.1
4. (DK/Refuse)	32.9	—	—	35.4
Total	100.0%	100.0%	100.0%	100.0%
N	50	31	19	100

4b1. Do you pay him or her a flat fee or an hourly fee to do it?

1. Flat fee	58.0%	—%	—%	60.6%
2. Hourly rate	27.3	—	—	23.9
3. (DK/Refuse)	14.8	—	—	15.6
Total	100.0%	100.0%	100.0%	100.0%
N	50	31	19	100

4b2. Do you send your payroll records to the accountant or bookkeeper in electronic or paper form?

1. Electronic	44.3%	—%	—%	43.4%
2. Paper	39.8	—	—	41.5
3. (DK/Refuse)	15.9	—	—	14.2
Total	100.0%	100.0%	100.0%	100.0%
N	50	31	19	100

4b3. Does the accountant or bookkeeper manage the financial transactions for you, such as tax deposits, or do you conduct that part of the process in-house?

1. Accountant/bookkeeper	52.3%	—%	—%	54.6%
2. In-house	45.5	—	—	43.5
3. (DK/Refuse)	2.3	—	—	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	50	31	19	100

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

4c. Approximately, how much does your payroll services company charge you per month for the service when the company does your payroll?

1. < \$100	29.0%	4.5%	13.0%	22.5%
2. \$100 or more	45.5	50.0	26.1	34.1
3. Rolled into a single payment for financial services	—	9.1	—	1.4
4. (DK/Refuse)	38.7	36.4	60.9	42.0
Total	100.0%	100.0%	100.0%	100.0%
N	51	64	75	190

4c1. Do you send your payroll records to the payroll services company in electronic or paper form?

1. Electronic	62.1%	50.0%	65.5%	60.7%
2. Paper	23.2	34.6	24.1	25.3
3. (DK/Refuse)	14.8	15.3	10.3	14.0
Total	100.0%	100.0%	100.0%	100.0%
N	51	64	75	190

4c2. What is the most important reason that you chose to engage a payroll company rather than doing your payroll in-house? Was it because it is: ?

1. The most effective way to do payroll	12.5%	28.0%	20.7%	16.7%
2. Provides a smoother work flow for in-house people	15.6	16.0	6.9	14.0
3. Takes care of everything; comprehensive	43.8	44.0	48.3	44.7
4. Fewer mistakes	11.5	8.0	13.8	11.3
5. (Other)	13.5	13.0	6.9	10.6
6. (DK/Refuse)	3.1	—	3.4	2.7
Total	100.0%	100.0%	100.0%	100.0%
N	51	64	75	190

5. How often do you remit payroll taxes to the federal government?

1. Quarterly	46.2%	33.3%	21.1%	42.4%
2. Monthly	28.2	24.7	22.4	27.3
3. More frequently	7.6	27.2	28.9	13.3
4. (Annually)	1.8	—	—	—
5. (DK/Refuse)	16.2	14.8	26.3	17.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

5a. Do you use an Internet banking arrangement that allows you to remit your payroll taxes electronically?

1. Yes	25.8%	51.8%	61.8%	32.1%
2. No	67.1	42.2	22.4	60.1
3. (DK/Refuse)	7.1	6.0	15.8	7.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

6. Do you have direct deposit for employee payroll checks, that is do you give your employees the option of having their paychecks automatically deposited directly into their bank account?

1. Yes	20.6%	41.5%	54.5%	26.1%
2. No	78.6	58.5	42.9	73.0
3. (DK/Refuse)	0.8	—	2.6	0.9
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

6a. About how many of your employees use direct deposit? (If “Yes” in Q#6.)

1. None	31.3%	9.4%	4.7%	22.2%
2. 1 - 49 percent	5.5	25.0	30.2	13.8
3. 50 - 99 percent	15.6	34.4	41.9	24.1
4. All	43.8	28.1	14.0	35.0
5. (DK/Refuse)	3.9	3.1	9.3	4.9
Total	100.0%	100.0%	100.0%	100.0%
N	70	79	111	260

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

6b. Do you allow employees to make direct deposits to more than one account? For example, could part of the employee's pay check be directly deposited into a checking account and part into a savings account?

1. Yes	49.2%	54.5%	60.5%	52.5%
2. No	40.6	39.4	27.9	37.7
3. (DK/Refuse)	10.2	6.1	11.6	9.8
Total	100.0%	100.0%	100.0%	100.0%
N	70	79	111	260

6b1. What is the maximum number of accounts that an employee can have his or her money deposited into, or has that issue never arisen?

1. Never arisen	—%	—%	69.2%	83.8%
2. < 5 accounts	—	—	19.3	12.3
3. (DK/Refuse)	—	—	11.5	3.9
Total	100.0%	100.0%	100.0%	100.0%
N	35	44	68	147

6c. Can two or more deposits for a single employee be sent to two or more financial institutions?

1. Yes	35.9%	45.5%	40.5%	38.4%
2. No	39.1	36.4	28.6	36.5
3. (DK/Refuse)	25.0	18.2	31.0	25.1
Total	100.0%	100.0%	100.0%	100.0%
N	70	79	111	260

6d. What is the most important reason that you instituted direct deposit?

1. It's administratively easier and more reliable	39.4%	27.3%	29.3%	35.3%
2. Employees asked for direct deposit	26.8	30.3	34.1	28.9
3. Help employees manage their personal finances	3.1	9.1	7.3	5.0
4. Employees don't have to find a place to get their checks cashed	11.0	12.1	17.1	12.4
5. (Other)	15.0	15.2	7.3	13.4
6. (DK/Refuse)	4.7	6.1	4.9	5.0
Total	100.0%	100.0%	100.0%	100.0%
N	70	79	111	260

6e. Has direct deposit generally been helpful, a hassle, or inconsequential to your business?

1. Helpful	67.2%	57.6%	54.8%	63.1%
2. Hassle	1.6	—	2.4	1.5
3. Inconsequential	28.1	36.4	40.5	32.0
4. (DK/Refuse)	3.2	6.1	2.4	3.5
Total	100.0%	100.0%	100.0%	100.0%
N	70	79	111	260

6f. What is the most important reason that you do not have direct deposit? Is it: ? (If “No” in Q#6.)

1. The paperwork and general hassle involved	5.1%	10.4%	29.3%	6.1%
2. No employee demand for it	33.7	43.8	34.1	34.9
3. Your business is too small	36.7	14.6	7.3	33.3
4. Not adequately computerized	1.8	4.2	17.1	2.1
5. You really haven't thought about it	15.7	16.7	7.3	15.6
6. (Cost)	1.2	2.1	—	1.2
7. (DK/Refuse)	5.7	8.4	4.9	6.8
Total	100.0%	100.0%	100.0%	100.0%
N	278	120	86	484

7. Employees can change their tax withholding by completing and filing a new W-4 form. Considering the frequency of employee changes and any administrative issues for you, are W-4 changes one of the most difficult or one of the least difficult government paperwork burdens you have? Is that strongly or not so strongly?

1. Most difficult - strongly	2.4%	1.2%	—%	2.1%
2. Most difficult - not so strongly	3.1	3.7	2.6	3.1
3. Least difficult - not so strongly	25.2	26.8	27.6	25.6
4. Least difficult	48.9	51.2	52.6	49.5
5. (DK/Refuse)	20.5	17.1	17.1	19.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

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

8. Do you have any employees who claim eligibility for the Earned Income Tax Credit and submit form W-5 to you?

1. Yes	0.6%	3.7%	5.2%	1.4%
2. No	91.2	82.9	67.5	88.0
3. (DK/Refuse)	8.2	13.4	27.3	10.6
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

9. Do you offer your employees a retirement plan?

1. Yes	20.1%	49.4%	53.2%	26.5%
2. No	79.1	50.6	44.2	72.6
3. (DK/Refuse)	0.8	—	2.6	0.9
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

9a. Is it a 401(k), a SIMPLE plan, profit-sharing, a SEP plan or something else? (If “Yes” in Q#9.)

1. 401(k)	32.5%	39.0%	65.9%	40.4%
2. SIMPLE plan	33.3	34.1	14.6	29.8
3. Profit-sharing	11.9	7.3	7.3	10.1
4. SEP	13.5	7.3	4.9	10.6
5. Something else	8.7	12.2	4.9	8.7
6. (DK/Refuse)	—	—	2.4	0.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	68	96	106	270

Demographics

D1. Which best describes your position in the business?

1. Owner/manager	83.8%	75.6%	71.1%	81.7%
2. Owner but NOT manager	7.2	7.3	6.6	7.2
3. Manager but NOT owner	9.0	17.1	22.4	11.1
4. (DK/Refuse)	—			
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D2. Is your primary business activity: (NAICs code)

1. Agriculture, forestry, fishing	3.8%	2.5%	1.3%	3.5%
2. Construction	9.6	11.1	10.5	9.8
3. Manufacturing, mining	8.6	17.3	14.5	10.1
4. Wholesale trade	4.3	6.2	6.6	4.7
5. Retail trade	17.0	16.0	13.2	16.5
6. Transportation and warehousing	2.2	2.5	3.9	2.4
7. Information	1.4	1.2	1.3	1.4
8. Finance and insurance	6.7	1.2	1.3	5.6
9. Real estate and rental leasing	2.9	2.5	3.9	2.9
10. Professional/scientific/ technical services	17.1	6.2	9.2	15.2
11. Adm. support/waste management services	3.0	1.2	1.3	2.7
12. Educational services	0.6	1.2	—	0.6
13. Health care and social assistance	4.6	9.9	5.3	5.2
14. Arts, entertainment, or recreation	1.9	1.2	1.3	1.8
15. Accommodations or food service	4.8	12.3	18.4	6.9
16. Other service, incl. repair, personal care	11.2	7.4	6.6	10.4
17. (Other)	—	—	1.3	0.1
18. (DK/Refuse)	—	—	—	—
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

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

D3. Over the last two years, have your real volume sales:?

1. Increased by 30 percent or more	11.5%	10.8%	14.3%	11.7%
2. Increased by 20 to 29 percent	14.1	22.9	13.0	14.9
3. Increased by 10 to 19 percent	25.9	27.7	28.6	26.4
4. Changed less than 10 percent one way or the other	26.7	26.5	31.2	27.2
5. Decreased by 10 percent or more	13.6	6.0	6.5	12.1
6. (DK/Refuse)	8.1	6.0	6.5	7.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D4. Is this business operated primarily from the home, including any associated structures such as a garage or a barn?

1. Yes	29.2%	4.8%	3.9%	24.1%
2. No	70.5	92.8	93.5	75.1
3. (DK/Refuse)	0.3	2.4	2.6	0.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D5. How long have you owned or operated this business?

1. < 6 years	23.2%	14.6%	19.5%	21.9%
2. 6-10 years	20.1	17.1	19.5	19.7
3. 11-20 years	28.5	32.9	23.4	28.4
4. 21-30 years	20.1	23.2	18.2	20.2
5. 31 years+	7.6	9.8	16.9	8.7
6. (DK/Refuse)	0.6	2.4	2.6	1.0
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D6. What is your highest level of formal education?

1. Did not complete high school	3.9%	2.4%	1.3%	3.5%
2. High school diploma/GED	25.5	16.9	14.7	23.6
3. Some college or an associates degree	20.2	21.7	21.3	20.5
4. Vocational or technical school degree	2.2	2.4	—	2.0
5. College diploma	31.1	34.9	38.7	32.3
6. Advanced or professional degree	15.6	19.3	20.0	16.4
7. (DK/Refuse)	1.4	—	4.0	1.8
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D7. Please tell me your age.

1. <25	0.8%	1.2%	—%	0.8%
2. 25-34	4.8	6.0	5.3	5.0
3. 35-44	23.4	22.6	17.1	22.7
4. 45-54	28.6	31.0	36.8	29.6
5. 55-64	27.9	26.2	23.7	27.3
6. 65+	11.7	8.3	10.5	11.2
7. (DK/Refuse)	2.7	4.8	6.6	3.3
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D8. What is the zip code of your business?

1. East (zips 010-219)	22.0%	18.3%	11.7%	20.6%
2. South (zips 220-427)	20.4	19.5	19.5	20.2
3. Mid-West (zips 430-567, 600-658)	23.4	28.0	24.7	24.0
4. Central (zips 570-599, 660-898)	21.3	18.3	24.7	21.3
5. West (zips 900-999)	11.2	13.4	15.6	12.0
6. (DK/Refuse)	1.6	2.4	3.9	1.9
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

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

D9. Urbanization (Derived from zip code.)

1. Highly Urban	10.9%	11.0%	13.3%	11.2%
2. Urban	19.1	17.1	21.3	19.1
3. Fringe Urban	18.7	19.5	17.3	18.6
4. Small Cities/Towns	21.5	24.4	20.0	21.7
5. Rural	23.9	19.5	18.7	22.9
6. (Not Known)	5.9	8.5	9.3	6.5
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

D10. Sex

Male	79.5%	78.3%	81.8%	79.6%
Female	20.5	21.7	18.2	20.4
<hr/>				
Total	100.0%	100.0%	100.0%	100.0%
N	351	201	202	754

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 April 13 - May 26, 2006 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 is typically 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 random 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 are 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.

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	351	46
10-19	82	11	200	27	201	27
20-249	75	10	200	27	202	27
All Firms	750	100	750	101	754	101

* Sample universe developed from the Bureau of the Census (2002 data) and published by the Office of Advocacy at the Small Business Administration.

The Sponsor

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. The Foundation's functions were recently transferred from the NFIB Education Foundation.



Data Collection Method

The data for this survey report were collected for the NFIB Research Foundation by the executive and management teams of the...

Employment Size of Firm	Interviews Conducted	Percent of Total	Percent Distribution of Completed Interviews
1-9	593	79%	79%
10-19	82	11%	20%

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