

Report Identifies Barriers to the Growth of Small Innovative Companies

The Office of Advocacy has released a study examining the challenges holding back small innovators. *Small Innovative Company Growth—Barriers, Best Practices and Big Ideas: Lessons from the 3D Printing Industry*, identifies the barriers hindering the growth and development of small innovative companies, and offers solutions to those barriers.

The report was written by Mark Harrison, Advocacy’s entrepreneur in residence, over a 12-month period. It draws on input from numerous contributors and contains extensive links to news articles, research studies, and innovative programs. As a case study, the author examined the barriers specific to additive manufacturing (also known as 3D printing), an emerging industry that has the potential to affect traditional economic patterns and produce breakthroughs in dozens of fields.

The study was conducted as part of Advocacy’s Innovation Initiative. Launched in 2012, the initiative was designed to investigate the challenges individual entrepreneurs and small high-growth companies face in attempting to commercialize an innovative product or service. Eleven key barriers to small inno-

vative company growth are identified in the report, and each barrier is discussed in three parts.

What we heard: Describing the input from entrepreneurs, private industry and other participants in the innovation ecosystem as a result of Advocacy’s outreach efforts;

Best practices: Identifying best practices or recent activities around an identified barrier; and

Big ideas and recommendations: Highlighting policies or programs that should be considered by the federal government to overcome such barriers.

The 11 barriers that exist across the innovation process timeline include:

Student debt: The amount of student debt held by graduating students prevents them from pursuing entrepreneurial opportunities.

Increased R&D: The amount of funding and support of research and development in the United States needs to increase.

Identifying market needs: Entrepreneurs often lack information regarding market needs and product research and development efforts.

Shortage of engineering and

Continued on page 4

In This Issue

Economic News

- Report Explores Potential Benefits of Equity-based Crowdfunding. 3
- Advocacy Releases New Economic Reports. 4

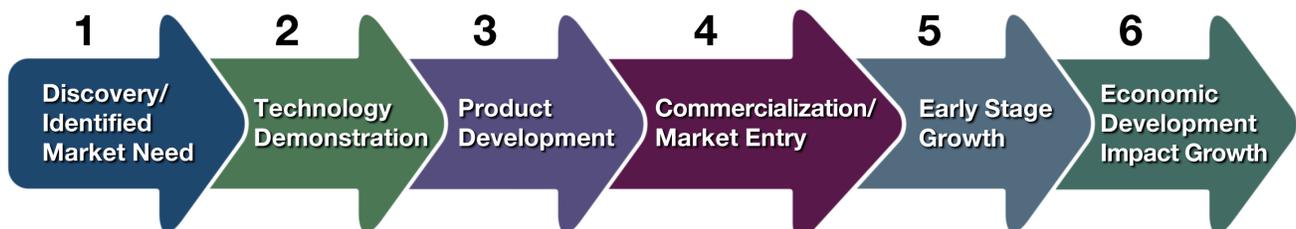
Regulatory News

- Advocacy Comments on EPA’s Air Emission Standards Rules 2
- Advocacy Comments to IRS Address Repair Regulations . 2
- Advocacy Asks DOE to Reconsider Furnace Regulations 2
- FAA Proposes Rule on Small Unmanned Aircraft 3
- Credit Union Admin. Proposes Asset Threshold Increase. . . . 3
- USCIS Issues New Policy for L-1B Visas 3

Advocacy News

- Regulatory Roundtables Listed on Advocacy’s Website 4

The Innovation Process



Advocacy Comments on EPA's Air Emission Standards Rules

On March 17, 2015, the Office of Advocacy submitted comments to the Environmental Protection Agency (EPA) in response to EPA's proposed rulemaking on "National Emission Standards for Hazardous Air Pollutants (NESHAP) for Brick and Structural Clay Product Manufacturing." The proposed rulemaking would set emission standards for a wide variety of pollutants, including particulate matter, mercury, and acid gases.

Advocacy's letter states that there are significant concerns about the impact this rule will have on small businesses since a majority of the firms in brick production are small. In particular, Advocacy is concerned that EPA has underestimated the number of small businesses that will be adversely affected.

Advocacy recommends EPA adopt the small business flexibilities discussed in the proposed rule and continue to explore flexibilities that will minimize the impact on small businesses consistent with the Clean Air Act. The letter also recommends further consultation with small businesses to gather the data necessary to justify greater flexibilities. The letter can be found on Advocacy's website at <http://go.usa.gov/3D2EG>. For more information, contact David Rostker at David.Rostker@sba.gov or 202-205-6966.

Advocacy Comments to IRS Address Repair Regulations

On March 24, 2015, the Office of Advocacy submitted comments to the Internal Revenue Service (IRS) regarding Revenue Procedure (Rev. Proc.) 2015-20, which provides

guidance related to accounting requirements commonly referred to as the "repair regulations." These regulations set forth accounting requirements related to the acquisition, production, or improvement of tangible property. They direct when businesses must capitalize purchases of property and when businesses are permitted to deduct expenses in the year the expenditure is incurred.

Rev. Proc. 2015-20 was intended to make it easier for small business owners to comply with the repair regulations by allowing them to change a method of accounting on a prospective basis for the first taxable year beginning on or after January 1, 2014.

It also requested comment on whether the \$500 safe harbor threshold contained in the repair regulations should be raised. The safe harbor permits a business to immediately expense the cost of property in the year that the cost was incurred as long as the property does not exceed a certain dollar amount. Currently, businesses without an applicable financial statement are limited to a \$500 deduction amount per invoice item. Businesses with applicable financial statements may deduct up to \$5,000 per invoice item.

Many small business owners expressed concern to Advocacy that the \$500 safe harbor is too low. They indicated that the cost of most property subject to the repair regulations exceeds \$500, and that small businesses generally cannot afford to take advantage of the higher \$5,000 threshold. Based on this feedback, the letter encourages the IRS to increase the safe harbor threshold.

The comment letter can be found on Advocacy's website at <http://go.usa.gov/3D2fe>. For more information, contact Dillon Taylor at Dillon.Taylor@sba.gov or (202) 401-9787.

Advocacy Asks DOE to Reconsider Furnace Regulations

On April 3, 2015, the Office of Advocacy submitted comments to the Department of Energy (DOE) in response to the proposed rule "Energy Conservation Standards for Commercial Warm Air Furnaces." The proposed rule would raise the energy efficiency standards for commercial warm air furnaces.

There are two types of equipment classes covered by this rulemaking: oil-fired furnaces and gas-fired furnaces. There is only one small manufacturer of gas-fired furnaces, and it currently manufactures furnaces at an 80 percent efficiency level. According to DOE's own analysis, this small manufacturer will incur significant costs to upgrade their equipment lines to the 82 percent efficiency level in the proposed rule. DOE has estimated conversion costs at \$4.4 million per manufacturer. The affected small business is concerned that the proposed standards are not economically feasible to comply within the prescribed three-year period.

Advocacy's letter states that the small manufacturer has only seven percent of the gas-fired commercial warm air furnace listings in the market, so their compliance with the proposed standard would yield little in the way of energy savings, but cause significant economic harm to that small business.

The letter asks that DOE exercise its discretion to adopt a standard for commercial warm air furnaces that still achieves significant energy savings without imposing costs that will cause small businesses to exit the market. In addition, it is recommended that DOE make contact with the small firm, which

Continued on page 3

Report Explores the Potential Benefits of Equity-based Crowdfunding

The Office of Advocacy's Office of Economic Research has released a new Issue Brief, *Equity-based Crowdfunding: Potential Implications for Small Business Capital*. Written by Regulatory Economist Ryan Taylor, the report examines this alternative form of capital that could hold promise for small business entrepreneurs in the United States.

As other forms of crowdfunding emerge, equity-based crowdfunding remains untapped. It was established under Title III of the Jumpstart Our Business Startups

(JOBS) Act (2012), but the rule is still being written at the Securities and Exchange Commission (SEC) to expand the ability for entrepreneurs to sell equity to prospective investors online. Until the SEC issues the final rule, equity-based crowdfunding for the vast majority of Americans remains off-limits.

The report offers two case studies of equity-based crowdfunding platforms operating in Europe: Sellaband, which was designed as an alternative to traditional financing for the music industry, and Crowdcube, which focuses strictly

on monetary gains via equity, venture funding, and mini-bonds.

By looking at these current examples, the report concludes that equity-based crowdfunding could create an efficient alternative funding source for small businesses and microbusinesses which are unable to attain their desired level of credit in an environment where the amount of small business loans being made available is shrinking.

The report can be found on Advocacy's website at <http://go.usa.gov/3WDdJ>.

Regulatory News, from page 2

it has not previously contacted, to assess the true impact of the proposed regulation on that small firm.

The comment letter can be found on Advocacy's website at <http://go.usa.gov/3WWXw>. For more information, contact Rosalyn Steward at Rosalyn.Steward@sba.gov or (202) 205-7013.

Regulatory Alert: FAA Proposes Rule on Small Unmanned Aircraft

On February 23, 2015, the Federal Aviation Administration (FAA) published its proposed Operation and Certification of Small Unmanned Aircraft Systems (small UAS or small drones) rule. The proposed rule would allow small UAS to operate commercially in the national airspace under certain controlled conditions. FAA's proposed rule would be the next step of integrating small UAS into commercial use, and there is strong interest in using them for things like crop monitoring and inspection, research and development, educational and academic uses, power-line/pipeline inspection, construction, antenna inspections,

rescue operations, bridge inspections, aerial photography, wildlife nesting area evaluations, and other operations.

Comments are due to FAA by April 24, 2015. More information can be found on Advocacy's website at <http://go.usa.gov/3WW5H> or contact Bruce Lundegren at Bruce.Lundegren@sba.gov or (202) 205-6144.

Regulatory Alert: Credit Union Administration Proposes Asset Threshold Increase

On March 5, 2015, the National Credit Union Administration Board (NCUA) published a proposed rule to amend Interpretive Ruling and Policy Statement (IRPS) 87-2. The amended IRPS would increase the asset threshold used to define a small entity under the Regulatory Flexibility Act (RFA) from \$50 million to \$100 million and, thereby, provide transparent consideration of regulatory relief for a greater number of credit unions in future rulemakings. The proposed rule and IRPS also make a technical change regulations in connection with NCUA's procedures for developing regulations.

Comments are due by May 4, 2015. More information can be found on Advocacy's website at <http://go.usa.gov/3WW5x> or contact Jennifer Smith at Jennifer.Smith@sba.gov or (202) 205-6943.

Regulatory Alert: USCIS Issues New Policy for L-1B Visas

On March 24, 2015, the U.S. Citizenship and Immigration Services (USCIS) issued a policy memorandum that provides guidance on the processing of the L-1B visa classification, which permits international companies to transfer employees who possess "specialized knowledge" from their foreign operations to operations in the U.S. Advocacy is interested in feedback on the numbers of small businesses that utilize the L-1B visa, the economic impact of these changes, and any possible alternatives to this guidance that may minimize the impacts of this guidance.

Comments are due by May 8, 2015 and can be sent to opefeedback@uscis.dhs.gov. More information can be found at <http://go.usa.gov/3WW55> or by contacting Janis Reyes at Janis.Reyes@sba.gov or (202) 205-6533.

Innovation Report, from page 1

job production talent: There is a general consensus among technology firms that there is a shortage of engineering and production job talent which can slow company growth.

Capital access: Access to capital still impedes small business growth.

Difficulty commercializing products: Many small companies have difficulty commercializing (i.e. begin to sell to market) their technology products.

Technology diffusion and adoption: Technology diffusion and adoption is more difficult for small businesses.

New technology implementation costs: High equipment costs are a barrier to entry for small businesses implementing new technologies.

Lack of small business opportunities: Small companies want the government to make a stronger effort to buy more goods and services from them.

Legal uncertainty: Technology innovations often result in regulatory uncertainty and legal challenges.

Exporting: Small companies continue to face challenges exporting their products and services.

The report, *Small Innovative Company Growth—Barriers, Best Practices and Big Ideas: Lessons from the 3D Printing Industry*, can be found on Advocacy's website at <http://go.usa.gov/3WW6z>.

Advocacy Releases Economic Reports

Small Business Lending: Second Quarter 2014, <http://go.usa.gov/3WWFR>

Small Business Facts: The Role of Microbusinesses in the Economy, <http://go.usa.gov/3WWM3>

Small Business Facts: What Are the Employment Trends from New Businesses? <http://go.usa.gov/3WWMm>

Regulatory Roundtables Listed on Advocacy's Website

The Office of Advocacy has established a new page on its website to list upcoming regulatory roundtables. Advocacy hosts roundtables to receive input on which issues of importance to small business stakeholders, and to facilitate an open and frank discussion about small business-related concerns. Roundtable meetings are open to all interested persons, with the exception of the press, and are not intended to communicate or achieve any consensus positions of the attendees. Advocacy's roundtable page can be found at <https://www.sba.gov/category/advocacy-navigation-structure/regulatory-roundtables>.

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The Office of Advocacy is the independent voice for small business in the federal government. The office is the watchdog of the Regulatory Flexibility Act (RFA) and the source of small business statistics. Advocacy advances the views and concerns of small business before Congress, the White House, the federal agencies, the federal courts, and state policymakers.

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