

What is a small business?

The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. (The definition of “small business” used in government programs and contracting varies by industry; see www.sba.gov/size.)

How important are small businesses to the U.S. economy?

Small firms:

- Represent 99.7 percent of all employer firms.
- Employ about half of all private sector employees.
- Pay 43 percent of total U.S. private payroll.
- Have generated 65 percent of net new jobs over the past 17 years.
- Create more than half of the nonfarm private GDP.
- Hire 43 percent of high tech workers (scientists, engineers, computer programmers, and others).
- Are 52 percent home-based and 2 percent franchises.
- Made up 97.5 percent of all identified exporters and produced 31 percent of export value in FY 2008.
- Produce 16.5 times more patents per employee than large patenting firms.

Source: U.S. Dept. of Commerce, Census Bureau and Intl. Trade Admin.; Advocacy-funded research by Kathryn Kobe, 2007 (archive.sba.gov/advo/research/rs299tot.pdf) and CHI Research, 2003 (archive.sba.gov/advo/research/rs225tot.pdf); U.S. Dept. of Labor, Bureau of Labor Statistics.

How many small businesses are there?

In 2009, there were 27.5 million businesses in the United States, according to Office of Advocacy estimates. The latest available Census data show that there were 5.9 million firms with employees in 2008 and 21.4 million without employees in 2008. Small firms with fewer than 500 employees represent 99.9 percent of the total (employers and nonemployers), as the most recent data show there were 18,469 large businesses in 2008.

Source: Office of Advocacy estimates based on data from the U.S. Dept. of Commerce, Census Bureau, and trends from the U.S. Dept. of Labor, Bureau of Labor Statistics, Business Employment Dynamics.

What is small firms’ share of employment?

Small businesses employ about half of U.S. workers. Of the 120.9 million nonfarm private sector workers in 2008, small firms employed 59.7 million and large firms employed 61.2 million. About half of small firm employment is in second-stage companies (10-99 employees), and half is in firms that are 15 years or older. Small firms’ share of employment in rural areas is slightly higher than in urban areas; their share of part-time workers (22 percent) is similar to large firms’ share (19 percent). Small firms’ employment share remains steady since some small firms grow into large firms over time.

Source: U.S. Dept. of Commerce, Census Bureau: Statistics of U.S. Businesses, Current Population Survey, and Business Dynamics Statistics; and the Edward Lowe Foundation (<http://youreconomy.org>).

What share of net new jobs do small businesses create?

Small firms accounted for 65 percent (or 9.8 million) of the 15 million net new jobs created between 1993 and 2009. Much of the job growth is from fast-growing high-impact firms, which represent about 5–6 percent of all firms and are on average 25 years old.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics, Business Employment Dynamics; Advocacy-funded research by Zoltan Acs, William Parsons and Spencer Tracy, 2008 (archive.sba.gov/advo/research/rs328tot.pdf).

How many businesses open and close each year?

An estimated 552,600 new employer firms opened for business in 2009, and 660,900 firms closed. This amounts to an annual turnover of about 10 percent. Nonemployer firms have turnover rates three times as high, mostly because it is much easier for them to go into business and cease operations.

Starts and Closures of Employer Firms, 2005–2009

Category	2005	2006	2007	2008	2009
Births	644,122	670,058	668,395	626,400e	552,600e
Closures	565,745	599,333	592,410	663,900e	660,900e
Bankruptcies	39,201	19,695	28,322	43,546	60,837

Notes: e = Advocacy estimate. Bankruptcies include nonemployer firms. Source: U.S. Dept. of Commerce, Census Bureau; Administrative Office of the U.S. Courts; U.S. Dept. of Labor, Business Employment Dynamics (BED). Estimates based on Census data and BED trends.

What is the survival rate for new firms?

Seven out of 10 new employer firms survive at least 2 years, half at least 5 years, a third at least 10 years, and a quarter stay in business 15 years or more. Census data report that 69 percent of new employer establishments born to new firms in 2000 survived at least 2 years, and 51 percent survived 5 or more years. Survival rates were similar across states and major industries. Bureau of Labor Statistics data on establishment age show that 49 percent of establishments survive 5 years or more; 34 percent survive 10 years or more; and 26 percent survive 15 years or more.

Source: U.S. Dept. of Commerce, Census Bureau, Business Dynamics Statistics; U.S. Dept. of Labor, Bureau of Labor Statistics, BED.

How are credit conditions for small firms?

Credit conditions are improving. In mid-2010, commercial banks began to ease the tight lending conditions on small businesses that had begun in early 2007. And credit has continued to flow, as loans under \$1 million totalled \$695 billion in FY 2009. Also, after declining over the past few years, venture capital investment dollars increased in mid-2010.

Source: Federal Reserve Board, Senior Loan Officer Opinion Survey and Call Report data; National Venture Capital Association.

How are small businesses financed?

Small businesses rely heavily upon owner investment and bank credit, averaging about \$80,000 a year for young firms. Startups rely about equally on the owners' cash injections into the business and bank credit; young firms receive about three-quarters of their funds from banks via loans, credit cards, and lines of credit. One-tenth of startups and about a third of young firms do not use capital injections.

Source: Kauffman Foundation, *An Overview of the Kauffman Firm Survey: Results from the 2004–2008 Data*, (Alicia Robb, E.J. Reedy, Janice Ballou, David DesRoches, Frank Potter, Zhanyun Zhao), May 2010.

How do regulations affect small firms?

The smallest firms (fewer than 20 employees) spend 36 percent more per employee than larger firms to comply with federal regulations. The disparity is greatest in two areas: very small firms spend four and a half times as much per employee to comply with environmental regulations and three times more per employee on tax compliance than their largest counterparts.

Annual Cost of Federal Regulations by Firm Size			
Type of Regulation	Cost per Employee for Firms with:		
	Fewer than 20 Employees	20–499 Employees	500 or More Employees
All Regulation	\$10,585	\$7,454	\$7,755
Economic	4,120	4,750	5,835
Environmental	4,101	1,294	883
Tax Compliance	1,584	760	517
Occupational Safety and Homeland Security	781	650	520

Source: *The Impact of Regulatory Costs on Small Firms*, an Advocacy-funded study by Nicole Crain and Mark Crain, 2010 (archive.sba.gov/advo/research/rs371tot.pdf).

Whom do I contact about regulations?

To learn about pending regulation, visit Advocacy's Regulatory Alerts webpage, www.sba.gov/advocacy/815; to comment on pending regulations, email advocacy@sba.gov. To report unfair regulatory enforcement, contact SBA's National Ombudsman at ombudsman@sba.gov.

What is the role of women, minority, and veteran entrepreneurs?

Of the 27.1 million nonfarm businesses in 2007, women owned 7.8 million businesses, which generated \$1.2 trillion in revenues, employed 7.6 million workers, and paid \$218 billion in payroll. Another 4.6 million firms were 50 percent women owned. Minorities owned 5.8 million firms, which generated \$1 trillion in revenues and employed 5.9 million people. Hispanic Americans owned 8.3 percent of all U.S. businesses; African Americans, 7.1 percent; Asian Americans, 5.7 percent; American Indians and Alaska Natives, 0.9 percent; and Native Hawaiian or other Pacific Islanders, 0.1 percent. Veterans owned 2.4 million businesses in 2007,

generating \$1.2 trillion in receipts; another 1.2 million firms were 50 percent veteran owned. About 7 percent of veteran business owners had service-connected disabilities in 2002.

In 2008, the overall rate of self-employment (unincorporated and incorporated) was 9.8 percent, and the rate was 7.1 percent for women, 7.2 percent for Hispanic Americans, 4.7 percent for African Americans, 9.7 percent for Asian Americans and Native Americans, and 13.6 percent for veterans. Service-disabled veterans had lower self-employment rates than non-service-disabled veterans.

Source: U.S. Dept. of Commerce, Census Bureau, Survey of Business Owners; Advocacy-funded research by Open Blue Solutions, 2007 (archive.sba.gov/advo/research/rs291tot.pdf), and Office of Advocacy: *The Small Business Economy* (www.sba.gov/advocacy/849).

At what rates are the self-employed taxed?

Of the 15.5 million individuals whose primary occupation was self-employment (incorporated and unincorporated), the median personal marginal federal tax rate was 10 percent in 2008. Only 4.1 percent of the self-employed were in the marginal tax bracket of 33 percent or more.

Source: U.S. Dept. of Commerce, Census Bureau, Current Population Survey, March Supplement (special tabulation).

What research exists on the cost and availability of health insurance?

A Kaiser Family Foundation study confirmed the connection between firm size and offering health insurance. The survey shows that almost 60 percent of businesses with 3–9 workers offer health benefits to their employees. The ratio grows to more than three-fourths for firms with 10–24 employees, to 92 percent for firms with 25–49 employees, and to 99 percent for firms with 200 employees or more. Almost two-thirds of workers take health insurance coverage when offered. Overall in 2009, small firm employees were almost twice as likely as large firm employees to be uninsured (27.2 percent vs. 14.7 percent, respectively).

Source: Kaiser Family Foundation and the Health Research and Educational Trust, *Employer Health Benefits 2010 Annual Survey*; Employee Benefit Research Institute, *Sources of Health Insurance and Characteristics of the Uninsured: Analysis of the March 2010 Current Population Survey*.

How can I get more information?

For more information, visit Advocacy's website:

www.sba.gov/advocacy. Specific points of interest include:

- Economic research: www.sba.gov/advocacy/847.
- Firm size data: www.sba.gov/advo/849.
- Lending: www.sba.gov/advocacy/852.
- Small business profiles by state and territory: www.sba.gov/advocacy/848.
- *The Small Business Advocate* newsletter: www.sba.gov/advocacy/810.

For email delivery of Advocacy's newsletter, press, regulatory news, and research, visit <http://web.sba.gov/list>. For RSS feeds, visit www.sba.gov/advocacy/feed. Direct questions to (202) 205-6533 or advocacy@sba.gov.

The SBA's Office of Advocacy was created by Congress in 1976 to protect, strengthen, and effectively represent the nation's small businesses within the federal government. As part of this mandate, the office conducts policy studies and economic research on issues of concern to small business and publishes data on small business characteristics and contributions. For small business resources, statistics, and research, visit the Office of Advocacy's home page at www.sba.gov/advocacy.