

IRS Implements “Common Sense” Change on Behalf of Small Business

by Dillon Taylor, Assistant Chief Counsel, and Rebecca Krafft, Editor

In a win for small business, the Internal Revenue Service has announced a simplified option for small businesses to calculate the home office deduction. The new option allows a deduction of up to \$1,500 based on a formula of \$5 per square foot of home office space used. It will take effect for the 2013 tax year.

Chief Counsel for Advocacy Winslow Sargeant applauded the IRS announcement. “The Office of Advocacy has worked on this issue for decades, reinforcing this as a top priority of small business. This simplified option reduces costs for millions of America’s smallest businesses.” Dr. Sargeant also hailed the steadfast advocacy of the many small business organizations that have pressed for this change over the years.

In raw numbers, 14.4 million, or 52 percent of America’s 27.8

million small businesses, are home-based and may stand to benefit from the new home office deduction option. The IRS estimates that this will reduce the paperwork burden on small businesses by 1.6 million hours annually.

According to Acting IRS Commissioner Steven T. Miller, “This is a common-sense rule to provide taxpayers an easier way to calculate and claim the home office deduction.”

The Office of Advocacy has diligently pursued this change on behalf of small business as part of its congressionally mandated mission to reduce the disproportionate burden of regulation on small business. The office’s most recent formal request came in 2009, when Advocacy made this its top recommendation to the Tax Reform Subcommittee of the Presidential Economic Recovery Advisory

Board. Advocacy suggested that the IRS offer the option of a standard home office deduction to home-based business owners along the lines of the Form 1040 standard deduction. The change would allow at-home workers to continue to follow the current home office deduction rules or choose the new standard deduction.

Advocacy’s 2009 letter is online at www.sba.gov/content/letter-dated-092909-tax-reform-subcommittee-presidential-economic-recovery-advisory-board-0.

IRS Revenue Procedure 2013-13 is available at www.irs.gov/pub/irs-drop/rp-13-13.pdf.



As the 113th Congress commences in January, many new members with small business backgrounds are heading to Capitol Hill. For a sample of who’s who, turn to page 2.

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Capitol Hill Update

Freshman Members of the 113th Congress Bring Small Business Experience

With “small business” a recurring theme of the 2012 election cycle, entrepreneurs across the nation may be heartened to learn that a number of their rank will be representing them in the 113th Congress.

The class of 2013 includes several new members of Congress with direct small business experience, ranging from a rice farmer to founders of high-tech startups and nonbank lenders to restaurateurs to the owner of a reindeer ranch.

—*Kyle W. Kempf,*
Assistant Chief Counsel for
Congressional Affairs

Entrepreneurs Come to Capitol Hill

Here is a sampling of the new members of the 113th Congress with small business experience.

U.S. Senate

Joe Donnelly (D-Indiana), founder of a printing and rubber stamp company

Deb Fischer (R-Nebraska), rancher

U.S. House of Representatives

Kerry Bentivolio (R-Michigan, 11th District), owner of a reindeer ranch
Chris Collins (R-New York, 27th District), serial entrepreneur and investor

John Delaney (D-Maryland, 6th District), founder of a nonbank small business lender

Doug LaMalfa (R-California, 1st District), rice farmer

Thomas Massie (R-Kentucky, 4th District), founder of a high-tech firm

Mark Meadows (R-North Carolina, 11th District), restaurateur and developer

Beto O'Rourke (D-Texas, 16th District), founder of a web/Internet firm

Mark Pocan (D-Wisconsin, 2nd District), founder of printing company

Brad Schneider (D-Illinois, 10th District), management consultant to family-owned firms

Randy Weber (R-Texas, 4th District), founder of heating and air conditioning firm

Research News

Advocacy Seeks Proposals for New Small Business Research

The Office of Advocacy examines the role of small business in the economy and publishes research on a wide range of topics each year. These studies educate policymakers and small business advocates, and they expand knowledge of small business challenges and contributions. Advocacy recently issued a Request for Quotations (RFQ) seeking proposals for new research in four areas. To view the complete solicitations, visit FedBizOpps (www.fbo.gov) and search for the

solicitation numbers listed next to the topics in the table on page 3.

Research is to be conducted in the year following the contract award. These RFQs are for competitive contracts and are not research grants. **The deadline for submitting proposals is Friday, February 8, at 4 p.m. Eastern time.**

See the table on page 3 for descriptions of the RFQ proposal topics and the solicitation numbers.

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Editor Rebecca Krafft

Managing Editor Rob Kleinsteuber

Production Assistant Tyrellia Johnson

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Message from the Chief Counsel

Office of Economic Research Maintains Focus while Responding to New Information Needs

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

The newly published *Annual Report of the Office of Economic Research, FY 2012* reflects the constant striving of the Office of Advocacy's economic arm to deliver timely, user-friendly data to small business stakeholders.

Each year presents new opportunities to gather and present information. Advocacy's contract research in FY 2012 addressed such key topics as immigrant small business owners, federal small business contracting, small business innovation in green technology, and state-level small business patterns. Contract research also addressed the perennial question of the small business contribution to U.S. GDP.

In addition, Advocacy economists made important original contributions to research. The small business primer, "Frequently Asked Questions about Small Business," doubled in size and content.

Quarterly reports on small business lending and status, plus extensive firm-size data from key federal data agencies were presented online.

Two new ventures helped answer complex questions and direct users to the data they need:

- **Small Business Facts.** These one-page discussions explain multi-faceted small business topics. Eight were published in FY 2012, and they covered startup rates, job creation, health insurance, credit card financing, business definitions, gender differences in startup finance, and business survival. Additional installments in the Small Business Facts series are planned.

- **Small Business Data Resources.** The most popular research tool introduced in FY 2012 was Small Business Data Resources, a listing of online databases by federal agency or private sector source. This matrix

of sources, topics, and databases provides links to dozens of specialized data websites. Key topics include demographics, employment, exports, finance, firm-size data, firms and establishments, health care, income and sales, pension coverage, taxes, and training. It has proved invaluable to researchers, policymakers, small business trade associations, and members of the media interested in small businesses' role in the economy.

In addition, Advocacy's economists fill the ongoing need of evaluating the impact of regulatory proposals on small businesses. In all of these areas, they continue to find new, compelling ways to analyze and present insightful data.

The *Annual Report of the Office of Economic Research, FY 2012* can be found at www.sba.gov/advocacy/7540/428261.

Office of Advocacy RFQ Research Proposal Topics (See page 2)

Small Business Access to Capital Using Data Sets

SBAHQ-13-Q-0003

This research should use alternative (non-government) data sources to look at the supply and demand of the small business lending market to assess small businesses' loan demand, their use of capital, and the real economic impact (such as job creation) of small business capital investments.

Data Gaps in Measuring Small Business Dynamics

SBAHQ-13-Q-0004

This research should focus on data gaps that prevent policymakers, academics, and entrepreneurs from actively measuring the dynamics of small businesses with respect to job creation, access to capital, demographics, and innovation.

Entrepreneurship in an Aging America

SBAHQ-13-Q-0005

As the boomer generation ages, the percentage launching second careers as entrepreneurs has fallen slightly. This research should produce recommendations that policymakers can use in determining how to support older workers making the transition from wage work to business ownership.

Support for Small Manufacturers

SBAHQ-13-Q-0006

This research should analyze initiatives in support of small manufacturers across selected coordinated economies in Europe and Asia (e.g., Germany, Japan, China, and South Korea). The study may examine small business scale-up, exporting, workforce training, national security needs, and other areas.

Regulatory News

Fish and Wildlife Service Rewriting Rules on Critical Habitats

by *Kia Dennis, Assistant Chief Counsel*

On February 28, 2012, the White House issued a memorandum to the secretary of interior titled “Proposed Revised Habitat for the Spotted Owl: Minimizing Regulatory Burdens.” The memorandum directed the Fish and Wildlife Service (FWS) and the National Marine Fisheries Service to revise their rules on critical habitats so that an economic impact analysis is made available for public comment at the time that a critical habitat designation is proposed.

The agencies published a proposed rule enacting this change on August 24, 2012. Titled “Revisions to the Regulations for Impact Analysis of Critical Habitat,” it calls for the agencies to publish their economic analysis simultaneously with any proposed rule designating critical habitat. In addition, FWS proposes several significant revisions to the process it uses to conduct economic impact analyses.

On January 9, 2013, the Office of Advocacy hosted a roundtable to gather input from small entities on the proposal. Participants included small entity representatives from the transportation, real estate, oil and gas, and electric generation industries, and representatives of county governments and conservation groups. Participants came from as far away as Hawaii. The group expressed support for the principle of increasing the transparency of the critical habitat designation process and making the economic analysis available earlier. There were concerns, however, with the proposed changes to the process

for conducting economic analyses. Participants wanted the FWS to:

- Establish a process for requesting and obtaining economic information in a timely fashion;
- Commit to seeking and using the most accurate data available for their economic analyses; and
- Formally espouse the goal of conducting a quantitative economic analysis with every critical habitat designation and use qualitative information only as a last resort.

The deadline for comments is February 6. Comments should be submitted via www.regulations.gov. To comment, search for FWS-R9-ES-2011-0073, the docket number for this rule. For more information, contact Assistant Chief Counsel Kia Dennis, (202) 205-6936 or kia.dennis@sba.gov.

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Office of Advocacy
Mail Code 3114
409 Third Street, S.W.
Washington, DC 20416

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