More Young Veterans Appear To Be Starting Businesses

by Jules Lichtenstein, Senior Economist

Veteran business owners, compared to their non-veteran counterparts, tend to be older, male, white, and married. But the demographics of veteran business owners, along with the economic and business environment, are changing dramatically and rapidly. There is some evidence that the proportion of younger veteran business owners (under age 35) increased from 2008 to 2012, as did the share of veteran women business owners. (The share of women business owners increased among both veterans and non-veterans, but at a much greater rate for female veterans.)

In addition, recent data shows that veteran business owners are more likely to be homeowners than their non-veteran counterparts. They are more likely to report that their businesses are corporations, operate in the goods rather than service sector, are older, are one of multiple businesses, and have partners in the household with a business stake. (See Table 1.)

Issue Brief Number 1, Profile of Veteran Business Owners, is available on Advocacy’s website at www.sba.gov/advocacy/847/757305.

Table 1. Characteristics of Veteran-Owned Businesses, 2008 and 2012 (percent)

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Veteran</th>
<th>Non-Veteran</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kind of Industry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods Producing</td>
<td>30.8</td>
<td>27.5</td>
<td>25.2</td>
</tr>
<tr>
<td>Service</td>
<td>69.2</td>
<td>72.3</td>
<td>74.6</td>
</tr>
<tr>
<td>Firm Size (number of workers)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 25</td>
<td>84.9</td>
<td>85.5</td>
<td>83.8</td>
</tr>
<tr>
<td>25 or More</td>
<td>3.4b</td>
<td>2.6b</td>
<td>3.6</td>
</tr>
<tr>
<td>Not In Universe</td>
<td>11.7</td>
<td>11.9</td>
<td>12.7</td>
</tr>
<tr>
<td>Business Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 years or Older</td>
<td>83.3</td>
<td>88.9</td>
<td>74.1</td>
</tr>
<tr>
<td>Less than 3 years</td>
<td>16.7</td>
<td>11.1c</td>
<td>25.9</td>
</tr>
<tr>
<td>Number of Businesses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One</td>
<td>89.5</td>
<td>89.7</td>
<td>91.9</td>
</tr>
<tr>
<td>Two or More</td>
<td>9.5</td>
<td>10.3c</td>
<td>7.5</td>
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<tr>
<td>Multiple Owners in Household</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>15.7</td>
<td>14.2</td>
<td>13.5</td>
</tr>
<tr>
<td>No</td>
<td>25.8</td>
<td>33.7</td>
<td>26.1</td>
</tr>
<tr>
<td>Not In Universe</td>
<td>58.6</td>
<td>52.2</td>
<td>60.4</td>
</tr>
</tbody>
</table>


Regulatory News

SEC Issues Proposed Rule for Crowdfunding
by Dillon Taylor, Assistant Chief Counsel

On October 23, the Securities and Exchange Commission (SEC) issued a proposed rule to implement Title III of the JOBS Act, more commonly referred to as crowdfunding. Crowdfunding gives small businesses and startups the ability to raise capital using the Internet. The new proposal affects all startups and small businesses that seek to use crowdfunding to gain capital, as well as the third-party participants conducting the deals.

The SEC’s proposed rule creates the foundation for the regulatory structure of crowdfunding. Below is an overview of its requirements:

- The amounts that may be invested through crowdfunding are limited; people with annual income and net worth of less than $100,000 could invest a maximum of 5 percent of their yearly income. Those with higher incomes could invest up to 10 percent. Startups and small businesses could raise a maximum of $1 million a year through crowdfunding.
- Crowdfunding must be conducted through a third-party. This may be a licensed broker-dealer or a funding portal registered with the SEC.
- Startups and small businesses are required to disclose certain information to the investor and the SEC.
- Crowdfunded purchases may not be resold for one year.

The proposed rule is online at www.sec.gov/rules/proposed/2013/33-9470.pdf. Comments are due February 3, 2014.

Advocacy’s contact on this issue is Assistant Chief Counsel Dillon Taylor, dillon.taylor@sba.gov, (202) 401-9787.

Tax News

IRS Grants Additional Leeway to Small Employers and their Employees on Flexible Spending Arrangements
by Dillon Taylor, Assistant Chief Counsel

On October 31, the Internal Revenue Service announced a change to its rules governing health flexible spending arrangements (FSAs) offered by small business employers. Under the previous rules, employees had to forfeit any unspent funds remaining in a health FSA at the end of the plan year. The IRS guidance modifies the use-or-lose rule by allowing employers to permit their employees to carry over up to $500 of unused health FSA balances remaining at the end of a plan year. The guidance is contained in IRS Notice 2013-71.

Advocacy has worked with the IRS to encourage modification of the use-or-lose rule. On March 21, 2012, Advocacy hosted a roundtable meeting where small business stakeholders and IRS staff met to discuss the burdens associated with it. For example, one small business owner spoke about the time-consuming “year-end dance” that small business employers face to remind employees to spend remaining money in health FSAs. Advocacy wrote a public comment letter to the IRS on July 24, 2013. The letter incorporated small business feedback and recommended that the IRS adopt a more flexible approach to the use-or-lose rule.

Advocacy applauds the IRS’s guidance which will reduce burdens on small business employers who offer flexible FSAs. Our office will continue to pursue straightforward solutions for small business.
Message from the Chief Counsel

Revitalizing History: Entrepreneurship Through Innovation

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

Sitting down to write a message to our readers this month is very exciting. The Office of Advocacy remains very busy. From releasing in-house issue briefs and research reports to regulatory success stories, Advocacy is diligently working on behalf of our nation’s small businesses. With so many topics to address, I chose to highlight a recent trip to the Northeast which continued Advocacy’s Innovation Initiative.

This fall, I traveled to the great cities of Wilmington, Delaware; Philadelphia, Pennsylvania; and Camden, New Jersey. Leading the way were Region II Advocate Teri Coaxum and Region III Advocate Ngozi Bell.

My trip started as an opportunity to continue our national conversation about innovation, and to my delight, it became much more. It could best be described as a three-day information gathering session with a vibrant cross-pollination of regionally focused ideas, strengthened by robust feedback. Interestingly, in each city we met in historic venues that have been repurposed as innovation hubs, uniquely capturing the essence of transformation and innovation in each region.

Our trip began in Wilmington at the Hercules Center, a former DuPont chemical and munitions company founded in 1912. Today, the Hercules Center is still home to a chemical company and is quickly becoming one of Wilmington’s most vibrant innovation clusters. While I was there, Delaware Governor Jack Markell pledged to support even more opportunities to accelerate innovation and entrepreneurship. With the support of our leaders, we will continue to surpass our competitors and move our nation on a path to success through viable solutions and out-of-the-box thinking. With representatives from the University of Delaware and Delaware State University, we received feedback from premier learning institutions and entrepreneurs about green chemistry, cybersecurity, and youth entrepreneurship. Whether leveraging existing tools like startup tax credits or expanding state programs into national ones, we were delighted to find that our innovation toolbox is beyond the drawing board stage when it comes to fresh concepts for an innovative nation.

We next traveled to Philadelphia, where we spent the majority of our time at the Philadelphia Navy Yard. This state-of-the-art industrial park, formerly the Philadelphia Naval Shipyard and Naval Business Center, is now home to some of the region’s most technologically advanced companies. Representatives from the University of Pennsylvania, Pennsylvania State University, Rowan University, and Rutgers University joined our dynamic discussion. Our dialog spanned energy, healthcare, manufacturing, women and minority learning institutions and entrepreneurs about green chemistry, cybersecurity, and youth entrepreneurship. Whether leveraging existing tools like startup tax credits or expanding state programs into national ones, we were delighted to find that our innovation toolbox is beyond the drawing board stage when it comes to fresh concepts for an innovative nation.

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Regulatory News

Silica Discussion Dominates Advocacy Roundtable

by Bruce Lundegren, Assistant Chief Counsel

A discussion of the Occupational Safety and Health Administration’s recently proposed rule, Occupational Exposure to Crystalline Silica, dominated the Office of Advocacy’s September roundtable on labor safety and health issues. Professional staff from OSHA, including Acting Director of Standards and Guidance William Perry, attended the meeting and provided a background briefing to the attendees. Nearly 150 small businesses and their representatives participated.

OSHA’s proposed rule was published in the Federal Register on September 12. It would amend the agency’s existing silica standard by reducing the permissible exposure limit to 50 micrograms of respirable crystalline silica per cubic meter of air (50 mg/m³), calculated as an 8-hour time-weighted average. The proposed rule also includes an action level and ancillary provisions for employee protection, such as preferred methods for controlling exposure, respiratory protection, medical surveillance, hazard communication, and recordkeeping.

Silica is essentially sand (mainly quartz), one of the most common elements in the Earth’s crust. However, exposure to silica dust can lead to silicosis, lung cancer, and other diseases. Silica is present in thousands of small and large workplaces across the country, including manufacturing plants, shipyards, and construction sites. OSHA estimates that the proposed rule would affect some 533,000 firms. Approximately 470,000 of these are small businesses, and 357,000 have fewer than 20 employees.

Following Advocacy’s roundtable, in response to written requests from Advocacy and others, OSHA extended the deadline for filing comments on the proposed rule. The new deadline for filing written comments is January 27, 2014. OSHA will also be holding a public hearing on the proposed rule beginning on March 18. For more information, please contact Assistant Chief Counsel Bruce Lundegren at (202) 205-6144 or bruce.lundegren@sba.gov.

New to Advocacy

Introducing Advocacy Intern Steven M. Nwamkpa

This fall, Advocacy’s Office of Economic Research welcomes Steven Nwamkpa as a research intern. Nwamkpa is currently in a master’s program, studying economics with a concentration in finance at the American University in Washington, D.C. Nwamkpa has interned previously with SBA as a research analyst and with the U.S. Department of Agriculture’s Rural Utilities Service. His background includes business, as well as outreach and fundraising for a charitable foundation.

Nwamkpa received his bachelor’s degree in economics with a minor in finance from American University and has previously worked for two companies in China.

He can be reached at steven.nwamkpa@sba.gov.
Small Business Administration Issues Final Rule Enhancing Small Business Participation in Large Contracts and Subcontracting

by Major L. Clark, Assistant Chief Counsel

The Small Business Administration (SBA) issued a final rule significantly amending government small business contracting procedures. These changes give agencies tools to ensure that small businesses are included in multiple award contract procurements and other large-scale contracts. Small businesses had effectively been excluded from competing for these significant procurement actions.

The rule establishes policies and procedures for set-asides, partial set-asides, and reservations to improve small business access to multiple award contracts, task orders, and delivery orders. In addition, SBA is addressing how it will determine size under certain agreements and when recertification of status will be required. Finally, SBA is establishing a new definition of consolidation and reorganizing its prime contracting assistance regulations.

The rule, Acquisition Process: Task and Delivery Order Contracts, Bundling, Consolidation, was issued on October 2, 2013, and takes effect on or before December 31, 2013. For the complete text, see the Federal Register at www.gpo.gov/fdsys/pkg/FR-2013-10-02/pdf/2013-22064.pdf.

Entrepreneurship through Innovation from page 3.

entrepreneurship, and life sciences.

In addition to forward-thinking conversations with some of our nation’s top academic minds, I had the opportunity to hear from students seeking to start their own businesses. Students from the Delaware Valley Charter School shared their challenges with access to mainstream capital, describing how they often had to rely on their friends’ and families’ limited resources. We also spoke with Delaware Valley leaders and entrepreneurs. We were joined by Osagie Imasogie, managing partner of Phoenix IP Ventures; Anthony Green, senior executive of Ben Franklin Technology Partners of Southeastern Pennsylvania; and Philadelphia Deputy Mayor Alan Greenberger. Each distinguished guest gave a personal perspective on innovation in the Delaware Valley. The wide-ranging discussion gave me a sense of perspective on the arc of innovation: the need to learn from the past, be proactive, not let ideas pass us by, and recognize a region’s capabilities before they are overtaken by the market or global trends.

We ended our three-city tour on Camden’s Eastern Shore at One Port Center. This architectural gem is a historic relic for the community. And today One Port Center is helping revamp the city’s economy—providing advanced technology access through its innovation incubator partnership. To take it one step further, we even toured one of the facilities in the area, the Coriell Institute for Medical Research. By showcasing some of the best area talent, Camden was the perfect location to highlight our nation’s successful transformation of struggling economies.

As we approach the holiday season, we acknowledge and give thanks for our great nation. Even more so, we must give back by continuing our drive to recognize successful avenues for innovation while searching for new ways to keep our country vibrant. My tour of the East Coast reminded me that every pocket of our country comes with unique and valuable ideas. As the voice for small business, Advocacy will continue to bring this knowledge to the forefront for our policymakers to develop the best options for our future.

Shutdown Has Little Effect on Regulatory Comment Deadlines

October’s 16-day federal government shutdown appears to have had little effect on regulatory comment deadlines. Although some dockets closed when they reached their deadlines during the furlough, some agencies have announced that they are accepting submissions even if they are filed late.
Advocacy Report Analyzes the Benefits of Tax Expenditures to Small Business


“Our nation’s policymakers need sound economic data to help develop the best fiscal policy for our country. Our report details the dynamics behind tax expenditures and the small business economy, but more importantly, the study suggests the hurried removal of certain tax expenditures to raise revenue could lead to unintended economic consequences for small business,” said Chief Counsel for Advocacy Winslow Sargeant.

Today, many view tax expenditures as loopholes or tax breaks for big business. For example, the largest tax expenditure for large firms, deferral of active income of controlled foreign corporations, provides no benefit to small business. However, many of the important tax expenditures for small business were extended or expanded following the downturn and were intended to promote investment by small business. This study projects the largest federal tax expenditure provisions will total around $161 billion and small business use will make up approximately 25 percent or $40 billion of this total. For example, the study projects 10 percent of the largest tax expenditures for small business will be for domestic production activities totaling $3.9 billion in deductions for small business.


Quarterly Bulletins on Small Business Finance and Employment

The Office of Advocacy’s economists are now publishing small business analysis of new data on finance and employment in quarterly bulletins. The most recent finance bulletin (for second quarter 2013) appeared on October 21. The latest employment bulletin (for third quarter 2013) appeared on November 4. Both can be accessed from this webpage: www.sba.gov/advocacy/10871.