

Office of Economic Research

Research Publications 2006

January 2007

Created by Congress in 1976, the Office of Advocacy of the U.S. Small Business Administration (SBA) is an independent voice for small business within the federal government. Appointed by the President and confirmed by the U.S. Senate, the Chief Counsel for Advocacy directs the office. The Chief Counsel advances the views, concerns, and interests of small business before Congress, the White House, federal agencies, federal courts, and state policy makers. Economic research, policy analyses, and small business outreach help identify issues of concern. Regional Advocates and an office in Washington, DC, support the Chief Counsel's efforts.

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Office of Economic Research



Research Publications 2006

Office of Advocacy
U.S. Small Business Administration
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Foreword

Each year, the Office of Advocacy of the U.S. Small Business Administration is tasked with documenting the importance of entrepreneurship to the American economy and with highlighting policy issues of relevance to small firms. This report summarizes the publications produced by the Office of Advocacy's Office of Economic Research in 2006.

There were two conference proceedings released in 2006. First, Advocacy organized a symposium in September 2005 to discuss the Regulatory Flexibility Act. The event, which was held in conjunction with the law's 25th anniversary, examined the progress to date in terms of reducing regulatory burdens for small businesses, and it also discussed suggested changes to the law that would further enhance its effectiveness. The proceedings of the symposium were released in January 2006.

In April 2006, the Office of Advocacy cosponsored a conference, "Entrepreneurship: The Foundation for Economic Renewal in the Gulf Coast Region," with the Ewing Marion Kauffman Foundation, the Public Forum Institute, and the Gulf Coast Urban Entrepreneur Partnership. This conference was organized as a response to Hurricanes Katrina and Rita with the intent of focusing attention on the small business owners in the affected areas. Despite a multitude of both short-term and long-term challenges awaiting the citizens of Alabama, Louisiana, and Mississippi, many of the participants cited the opportunities that await entrepreneurs in their area. Some of the speakers noted that the enormity of the devastation has given them the unique ability to reinvent themselves economically. Indeed, entrepreneurs will play a very large role in their economic recovery.

Conferences constitute just a portion of what Advocacy produces each year. The office continues to produce a number of publications that are regularly referred to in speeches, the media, lectures, and academic research. In 2006, we updated a number of regular reports that are frequently cited, such as the *Frequently Asked Questions*, *Quarterly Indicators*, *The Small Business Economy*, *State & Territory Small Business Profiles*, and the annual lending study. Each of these reports serves as a "portal" to the rest of our research and data products. As such, they are designed to serve as introductory

products for those who are unfamiliar with the Office of Advocacy or small business research in general. We hope those who want to learn more will delve deeper into the rest of the research generated by this office and others.

Continuing our recent tradition, *The Small Business Economy* features two chapters by external sets of authors—Mark Weaver, Pat Dickson, and George Solomon on the impact of education on entrepreneurship and Steve Quello and Graham Toft on an approach to economic development that stresses fast-growing local entrepreneurs ("economic gardening"). We hope that these chapters serve as a springboard for additional research and discussion.

Other studies released in 2006 are worthy of mention. Joanne Pratt documented the importance of home-based sole proprietors. Two research reports focused on economic development, with one exploring rural entrepreneurship and the other examining the contributions of small firms to urban growth. Charles and Adrian Cowen surveyed financial institutions on their use of credit scoring for small business lending, and a number of studies concentrated on small businesses' ability to win contracts from the federal government. With the release of new Survey of Business Owners data from the U.S. Census Bureau, we were able to release an analysis of women in business. In 2007, the Office of Advocacy will release information on other demographics, including minorities, veterans, and service-disabled veterans.

In putting the research publications for 2006 together in this catalog, we are providing our constituents with a snapshot of our research efforts during the calendar year. Keep in mind that all of the Office of Advocacy's research—including both before and after 2006—can be found online at <http://www.sba.gov/advo/research>. For regular updates on our research as it is released, please join Advocacy's research listserv, which can be found at <http://web.sba.gov/list>. We appreciate your interest in small business.



Chad Moutray, Ph.D.
Chief Economist and Director
Office of Economic Research

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Research Publications 2006

How Did Small Business-Owning Households Fare During the Longest U.S. Economic Expansion?

George W. Haynes & Charles Ou, released June 2006,

<http://www.sba.gov/advo/research/rs276tot.pdf>

During the 1990s, the U.S. economy enjoyed its longest expansion on record. U.S. household income and wealth rose significantly during this period. This report examines how households that owned businesses fared during this boom period. The authors found that households owning small businesses were more likely to be found in the top echelons of income and wealth than households that did not own a business. However, over the course of the study period, the likelihood of being in the high income and high wealth category increased at a faster rate for non-business-owning households than for households with small businesses. In addition, small business owners saw their share of aggregate household wealth decline from 42.5 percent in 1992 to 40.6 percent in 2001.

Banking and SME Financing in the United States

Charles Ou, Working Paper, released June 2006,

<http://www.sba.gov/advo/research/rs277tot.pdf>

Commercial banks have been the leading supplier of debt capital to small firms in the United States. With the increasing availability of small business lending statistics and research on the topic, it becomes possible to provide an overview of the small business loan markets in the United States, as well as an evaluation of the impact of major developments on the cost and availability of loans to small businesses. The paper begins with a brief discussion of the market – the borrowers, lenders, and market organization – followed by a discussion of major developments in U.S. financial markets and the banking industry. Overall, it finds that loan markets for most small business borrowers in the United States have become more competitive over the past decade, evidenced by the emergence of a nationwide market for credit lines and credit cards and the entry of large regional banks in local markets. However, the impact of increased competition on the cost of funds to small firms, as indicated by the rate spreads between small business rates and the rates paid by the banks' best prime customers, is more difficult to assess because of data limitations.

A Survey Based Assessment of Financial Institution Use of Credit Scoring for Small Business Lending

Charles D. Cowan and Adrian M. Cowan, released November 2006,

<http://www.sba.gov/advo/research/rs283tot.pdf>

Whereas the use of credit scoring for consumer loans has been commonplace in banks for quite some time, the use of credit scoring for small business loans is a more recent phenomenon. The study attempts to answer several questions related to the use of credit scoring in small business lending, such as: How have banks incorporated credit scoring in their small business lending operations? How does credit scoring influence the availability of credit to small businesses? What factors predict the likelihood of the use of small business credit scoring by banks? Three basic investigations were conducted for this research. The study investigated the use of credit scoring within banks. The study estimated how small business lending and micro business lending were affected by the adoption of credit scoring by banks. Finally, the study investigated the factors that affected the likelihood that a bank would use credit scoring for small business loans. Overall, it found that while credit scoring has yet to become a primary instrument in loan underwriting for a majority of banks in the United States, there are indications that credit scoring may be providing more borrowing opportunities to small businesses.

Small Business and Micro Business Lending in the United States for Data Years 2004-2005

Charles Ou and Victoria Williams, released December 2006,

<http://www.sba.gov/advo/research/lending.html>

The Office of Advocacy prepares an annual study of lending to small firms, using the most recent data available on small and micro business loans to small firms and on the lending institutions that serve them. This study provides a brief review of the lending activities based on two types of data reported by banks to their regulating agencies—call reports and reports required by the Community Reinvestment Act (CRA). Because data are available only by the size of the loan, small business loans are defined as business loans under \$1 million, and micro business loans are those under \$100,000.

Quarterly Indicators: The Economy and Small Business

Chad Moutray

Fourth Quarter 2005, released February 2006:

<http://www.sba.gov/advo/research/sbqei0504.pdf>

First Quarter 2006, released May 2006:

<http://www.sba.gov/advo/research/sbqei0601.pdf>

Second Quarter 2006, released August 2006:

<http://www.sba.gov/advo/research/sbqei0602.pdf>

Third Quarter 2006, released November 2006:

<http://www.sba.gov/advo/research/sbqei0603.pdf>

This regular publication pulls together data from a variety of sources to highlight quarterly economic trends relevant to small businesses.

The Impact of Location on Net Income: A Comparison of Home-based and Non-home-based Sole Proprietors

Joanne H. Pratt Associates, released May 2006,

<http://www.sba.gov/advo/research/rs275tot.pdf>

Using 2002 sole proprietorship data, the impact of location on net income was analyzed using a sample of 1.6 million profitable nonfarm sole proprietorships that took a home office business deduction (home-based businesses) and 1.9 million that deducted rent for other business property (non-home-based businesses). Home-based (584,000) and non-home-based (770,000) firms reporting a deficit were compared with profitable businesses. In 2002, home-based businesses (HBB) earn lower average receipts (\$62,523) and net income (\$22,569) than businesses operated in rented space (non-HBB) (\$178,194 and \$38,243, respectively). Home-based firms gain a higher return on gross revenues compared with non-HBBs (36 percent versus 21 percent).

Frequently Asked Questions

Chad Moutray, released June 2006,

<http://www.sba.gov/advo/stats/sbfaq.pdf>

This document serves as a summary of other research materials and provides a series of quick, easy-to-recite facts for an external audience to recognize the importance of small business in the economy. As such, it is an excellent “introductory” publication for individuals to acquaint themselves with the Office of Advocacy’s research and data.

Small Business Profiles for the States and Territories

Victoria Williams, released September 2006,

<http://www.sba.gov/advo/research/profiles/>

The economic condition of small businesses in the United States, overall and in each of the 50 states, the District of Columbia, and the U.S. territories is illustrated. Each state profile contains sections on the following topics: the number of firms, industry composition, small business income, banking, women’s and minority business ownership, and employment.

Volatility and Asymmetry of Small Firm Growth Rates Over Increasing Time Frames

Rich Perline, Robert Axtell, and Daniel Teitelbaum, Working Paper, released December 2006,

<http://www.sba.gov/advo/research/rs285tot.pdf>

With the emergence of new longitudinal data sets, researchers are now able to better address questions about the dynamics of businesses. This study focuses on characterizing the large dispersion of business growth rates over increasing timeframes and considers whether employment expansions and contractions occur symmetrically. Previous studies found annual business growth rates having heavy tailed distributions (many large expansions and contractions). This study found that over longer timeframes, the distributions slowly move towards lighter tails (fewer large growth changes). This slow change in the distributions indicates firms tend to maintain their employment change trend. The study also found evidence to support the belief that a systematic difference between job creation and job destruction exists. There are more large employment swings among shrinking businesses than among expanding businesses.

The Small Business Economy: A Report to the President, 2006 Edition

Kathryn Tobias, editor, with various contributors; released December 2006,

http://www.sba.gov/advo/research/sb_econ2006.pdf

General
Small Business

In this annual publication, the Office of Advocacy reviews the economic environment for small businesses in the year 2005, as well as the financial and federal procurement marketplaces. It also features chapters on women in business, the importance of education to entrepreneurship, a discussion of “economic gardening,” and a review of Regulatory Flexibility Act activities for fiscal year 2005.

Chapter 1: “The Small Business Economy” by Brian Headd

Chapter 2: “Small Business Financing in 2005” by Victoria Williams and Charles Ou

Chapter 3: “Federal Procurement from Small Firms” by Major Clark, III

Chapter 4: “Women in Business” by Ying Lowrey

Chapter 5: “Entrepreneurship and Education: What is Known and Not Known about the Links between Education and Entrepreneurial Activity” by Mark Weaver, Rowan University; Pat Dickson, Wake Forest University; and George Solomon, George Washington University

Chapter 6: “Economic Gardening: Next Generation Applications for a Balanced Portfolio Approach to Economic Growth” by Steve Quello, CCS Logic, and Graham Toft, Growth Economics

Chapter 7: “An Overview of the Regulatory Flexibility Act and Related Policy” by Claudia Rodgers and Sarah Wickham

Appendix Data Tables by Brian Headd and Victoria Williams

Innovation and Small Business Performance: Examining the Relationship between Technological Innovation and the Within-Industry Distributions of Fast Growth Firms

Jonathan T. Eckhardt and Scott Shane, Peregrine Analytics, LLC, released March 2006,

<http://www.sba.gov/advo/research/rs272tot.pdf>

Innovation and
Technology

Theory holds that industry conditions favorable to the performance of small private firms are fundamentally different from industry conditions favorable to the performance of large, established firms. However, research into this question has been hindered by data limitations. This report seeks to determine empirically, via examination of a unique dataset, how changes in conditions of some industries, e.g., technological

Innovation and Technology

intensity and production and sales intensity, affect the performance of fast-growing small firms and fast-growing large public firms in those industries. It finds that industries that are more technically oriented (as evidenced by increased employment of scientists and engineers) are more accommodating to small fast-growing private firms. As industries become more production-oriented, they become more accommodating to large fast-growing public firms.

Identification of the Technology Commercialization Strategies of High-tech Small Firms

Diana Hicks, Dirk P. Libaers, Alan L. Porter, and David J. Schoeneck (Search Technology, Inc.), released December 2006,

<http://www.sba.gov/advo/research/rs289tot.pdf>

Finding highly innovative companies is often difficult because it is frequently their business strategy that makes them innovative, not necessarily what they produce. This study experiments with a unique method to find these companies: searches of innovative terms on their websites. The goal was to capture a strategy in a firm's business model rather than classifying businesses by goods or service production. This is important, as small, highly innovative companies have been at the forefront of creating the industries of the future. Searching for innovative terms on firms' websites determined that high-tech strategies could be found on known high-tech small firms but not on the control group. This indicates that this method holds promise for gaining insight into finding highly innovative firms.

Labor and Employment Benefits

Health Insurance Deductibility and Entrepreneurial Survival

Tami Gurley-Calvez, released April 2006,

<http://www.sba.gov/advo/research/rs273tot.pdf>

See the description of this study in the "Tax" section.

Women in Business: A Demographic Review of Women's Business Ownership

Ying Lowrey, released August 2006,

<http://www.sba.gov/advo/research/rs280tot.pdf>

Owner
Demographics

Focusing on the special characteristics of women-owned businesses and women's economic well-being, this report provides newly released information on women in the work force and women-owned businesses, including women's population statistics, their labor force participation, age, education, occupation, work schedules, average personal and household income, business ownership, and business dynamics. Among the paper's findings are that between 1997 and 2002, the numbers of women-owned firms overall increased by 19.8 percent and of women-owned employer firms, by 8.3 percent. In 2002, women owned 6.5 million or 28.2 percent of nonfarm U.S. firms. More than 14 percent of these women-owned firms were employers, with 7.1 million workers and \$173.7 billion in annual payroll. Women-owned firms accounted for 6.5 percent of total employment in U.S. firms in 2002 and 4.2 percent of total receipts. The largest shares of women-owned business receipts were in wholesale and retail trade and manufacturing in both 1997 and 2002. According to 2002 data, significant proportions of women-owned businesses were in professional, scientific, and technical services, and in health care and social assistance, but the share of receipts in these businesses was smaller than in the trades and manufacturing.

Impact of GSA's Information Technology Cooperative Purchase Program on Small Businesses

Eagle Eye Publishers, released July 2006,

<http://www.sba.gov/advo/research/rs278tot.pdf>

Procurement

Cooperative purchasing is a buying method that pools buyers in order to procure products or services in larger volumes, thereby leveraging lower prices, a wider selection of services, and other favorable terms from suppliers. To allow local jurisdictions to take advantage of cooperative purchasing arrangements available to federal government agencies, Section 211 of the E-Government Act of 2002 directed the General Services Administration (GSA) to open up the federal supply schedule to state, local, regional, or tribal governments (including local educational agencies or institutions of higher education). In 2003, GSA opened up the federal supply schedule for information technology (IT), or federal supply classification code group 70. This group is defined as

Procurement

automated data processing equipment (including firmware), software, supplies, support equipment, and services. This paper reviews GSA's IT cooperative purchasing program, and it evaluates other cooperative purchasing programs that are available to state and local officials. In particular, this analysis focuses on the impact of such programs on small business owners, who may or may not benefit from this arrangement.

The Impact of Government-wide Acquisition Contracts on Small Business

Eagle Eye Publishers & Jack Faucett Associates, released August 2006,

<http://www.sba.gov/advo/research/rs279tot.pdf>

In the mid-1990s, Congress passed a series of initiatives designed to fundamentally reform the way agencies acquired information technology-related goods and services from the private sector. The goal of these reforms was to implement results- and performance-based management practices that made agency procurement more timely and efficient and ensured that agencies were getting maximum value out of the taxpayer dollars they spent. One area in greatest need of procurement reform was information technology (IT). Congress passed a landmark measure in 1996 called the Information Technology Management Reform Act (ITMRA), also known as the Clinger-Cohen Act. Among the provisions, ITMRA included a section encouraging agencies to create multiple-award, multi-agency contracts for the purchase of IT goods and services, with the U.S. General Services Administration (GSA) playing the primary role. These contracts came to be known as government-wide acquisition contracts or GWACs. This report examines small business utilization under GWACs vehicles, both generalized contracts and those designated specifically for small businesses.

Encouraging New Opportunities for Small Business as Prime Contractors Through Changes to DOE's Management and Operating and Other Management Contracts

A feasibility study conducted by the U.S. Small Business Administration, the Office of Advocacy, the U.S. Department of Energy (DOE), the National Nuclear Security Administration, and the Defense Nuclear Facilities Safety Board, released August 2006,

<http://www.sba.gov/advo/research/jrdoe.pdf>

This report implements Section 6022(c) of the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Tsunami Relief, 2005.

That section requires the conduct of a study regarding the feasibility of possible changes to the DOE's management and operating (M&O) and other management contracts to encourage new opportunities for small businesses to increase their role as prime contractors. A study group was convened to conduct this study and prepare this report of its findings. The study group reviewed the various segments of the Small Business Act and its implementing and supplementing regulations and guidelines. It also reviewed the nature of DOE's M&O contracts. The study group further analyzed DOE's small business program activities and the history of small business goaling within DOE. Finally, the study group identified a number of potential changes that could, in theory, be made with respect to DOE's M&O and other management contracts and assessed the implications of these changes, not only for increasing prime contracting opportunities but also for the effects those changes would have on DOE and its mission. This report summarizes these study analyses.

The Government's Role in Aiding Small Business Federal Subcontracting Programs in the United States

Major Clark, III, Chad Moutray, and Radwan Saade, Working Paper, released September 2006,

<http://www.sba.gov/advo/research/rs281tot.pdf>

The purpose of the paper is fourfold. First, it discusses the importance of the small business sector to the overall economy. Second, it lays out the policy framework for the federal government's involvement in requiring "other than small" federal prime contractors to subcontract with small businesses. This policy discussion focuses on the period from 1958 to the present. Third, it examines the legislative and regulatory approaches that have been put forth to increase subcontracting opportunities for small businesses; and fourth, it discusses steps needed to improve the American small business subcontracting program to accommodate greater participation by these businesses in new and emerging global markets.

An Empirical Approach to Characterize Rural Small Business Growth and Profitability

Innovation & Information Consultants, Inc., released February 2006,

<http://www.sba.gov/advo/research/rs271tot.pdf>

Changes in the business cycle have had mixed effects on the rural economy. Some parts have fed off the expansion, while others, such as more remote rural areas and farm-dependent communities, are struggling to keep up. With this in mind, this study examines the factors that lead to small business growth in rural areas. Why do certain rural regions expand more than others? Past studies suggest that possible explanatory factors might include population trends, educational attainment, economic conditions at the federal and local level, access to business capital and infrastructure, the availability of technology, and various quality of life measures. This study explores each of these factors, supplementing the examination with case study analysis from six states: Kentucky, Maine, Nebraska, Nevada, North Carolina, and Utah. It finds that areas that experience greater population growth also have increased changes in the number of small businesses. The growth rates of rural small businesses are influenced by different factors during periods of varying economic conditions. Between 1997 and 1999, significant growth in the number of rural small businesses was influenced by demographic, economic, and quality of life variables. During the period that included the recession, 2000 to 2002, economic variables were more significant.

Entrepreneurship: The Foundation for Economic Renewal in the Gulf Coast Region,

Kathryn Tobias, editor; Conference Proceedings, released September 2006,

<http://www.sba.gov/advo/research/proceedings06.pdf>

As government and industry respond to the devastation of the Gulf Coast region after Hurricanes Katrina and Rita, it is important that rebuilding the small business economy receive special attention. Small business owners can play a large role in the urban renewal that takes place in New Orleans and the Gulf Coast region. On April 11, 2006, a policy conference was held in New Orleans and cosponsored by the Office of Advocacy, the Ewing Marion Kauffman Foundation, and the Gulf Coast Urban Entrepreneur Partnership. Various speakers discussed the devastation in terms of the economic costs to various communities. Despite the dire statistics, though, an overriding theme of the conference was the enormous opportunity that awaits those entrepreneurs willing to invest their ideas and resources in new enterprises.

The Economic Role of Small Businesses using Large Data Sets: An Analysis of the Contributions of Small Firms to Urban Growth

Steven G. Craig and Janet E. Kohlhase, released December 2006,

<http://www.sba.gov/advo/research/rs287tot.pdf>

In the past, large cities were primarily characterized by downtown centers of employment. Recent decades, however, have seen a proliferation of employment subcenters in areas outside of downtown. The rise of urban employment subcenters also coincides with a revitalization of major cities in the U.S. Thus, the role of small businesses in the formation, maintenance, and growth of employment subcenters provides an excellent window for observing the relative role of small and large firms in economic development. The research described in this project contributes important new understanding of the role of small businesses in economic growth. It looks at the economic development of different parts of one large city (Houston, Texas) and seeks to determine whether large firms are a significant cause of urban economic growth, or alternatively, whether small firms perform a key role. Overall, the authors find that small firms play a vital role in maintaining economic growth in urban areas. In addition, they find that small businesses compete effectively with large firms for land near the employment centers. While large firms are more likely to be in employment centers in the central business district and more established subcenters surrounding downtown, firm size is less important for newer and emerging subcenters that are farther from downtown.

The Regulatory Flexibility Act (RFA) Symposium

Kathryn Tobias, editor, with various contributors; Conference Proceedings, released January 2006

Part I: http://www.sba.gov/advo/rfa_sym0905.pdf

Part II: http://www.sba.gov/advo/rfa2_sym0905.pdf

The Regulatory Flexibility Act (RFA) is a landmark piece of legislation that has had the goal since its passage in 1980 of changing the culture of federal regulatory agencies to make them more aware of the effects of their regulations on small businesses and other small entities. By making regulations more rational and reflective of real-world business situations, the law has the potential to let small businesses be more productive, more powerful engines of economic growth. The Office of Advocacy, along

Regulation

Regulation

with several cosponsors, organized a symposium in conjunction with the RFA's 25th anniversary to take an in-depth look at the law—what has worked well, what has not, and what innovations are emerging—to prepare for moving forward into the next quarter century. The symposium was held on September 19 and 20, 2005. The proceedings publication summarizes an excellent exchange of ideas from various speakers, moderators, and panelists.

Tax

Health Insurance Deductibility and Entrepreneurial Survival

Tami Gurley-Calvez, released April 2006,

<http://www.sba.gov/advo/research/rs273tot.pdf>

The purpose of this research is to add to the policy debate by investigating whether closing the health insurance tax incentive gap between employees and the self-employed enhances entrepreneurial survival. The income tax deductibility of health insurance premiums for self-employed filers has a positive effect on the rate of entrepreneurial survival. The study finds that the rate of exit from entrepreneurial activity decreases when filers are permitted to deduct a portion of health insurance premiums on federal income tax filings. The effect holds for both single filers (who are generally younger, earlier in their career, and less risk-averse), as well as for married filers (who are often older and have dependent family members). The effect of the deduction on married filers is greatest. Married filers who took the deduction are more likely to remain in an entrepreneurial activity. As the value of the deduction grows, single filers' exit rates decline more than those of married filers. The findings generally confirm the observation that lower tax rates on entrepreneurial income tend to increase entrepreneurial activity; larger deductions of health care expenditures reduce the tax bills of those who purchase insurance. The observed decreases in the probability of entrepreneurial exit are an important consideration when evaluating policies to allow a health insurance deduction in calculating payroll tax liabilities.

The Impact of Location on Net Income: A Comparison of Home-based and Non-home-based Sole Proprietors

Joanne H. Pratt Associates, released May 2006,

<http://www.sba.gov/advo/research/rs275tot.pdf>

See the description of this study in the “General Small Business” section.

State Tax Policy and Entrepreneurial Activity

Donald Bruce and John Deskins, released November 2006,

<http://www.sba.gov/advo/research/rs284tot.pdf>

Engaging in entrepreneurship and starting a small business can be made more or less difficult by the structure of income taxes. While federal income taxes are the single largest tax on small business, state and local taxes can also affect small firms. Recent studies have shown how federal income tax rates can affect decisions to engage in entrepreneurial activities; this study tests whether the same pattern holds for state tax policy. The paper examines the impact of both state tax rates and tax composition (i.e., which taxes are imposed and in what proportion) on entrepreneurship rates. There is substantial variation in both the structure of taxes and tax rates across the 50 states. The paper identifies the effects of tax rates and tax composition on entrepreneurship.

Overall, it concludes that state tax policy, including both tax rates and the type of taxes in a state’s portfolio, has only a modest effect on aggregate state entrepreneurship rates.

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