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## Chief Counsel Brings Small Business Point of View to the Hill

Providing Congress with information about the impact of federal laws and regulations on small business is central to Advocacy's mission. Since taking office in January, Chief Counsel for Advocacy Thomas M. Sullivan has testified before Congress five times, advocating for small business in Washington (see page 3). This is a remarkable pace that suggests that Congress appreciates the information Advocacy provides.

Most, but not all, of this testimony has been before the House Small Business Committee (HSBC). Two of the HSBC hearings focused on the effectiveness of the Regulatory Flexibility Act (RFA) and tools to make Advocacy stronger. Another two hearings focused specifically on the Center for Medicare and Medicaid Services

(CMS) and investigated whether the application of the RFA to this particular agency has made any difference. The remaining hearing was before a subcommittee of the House Government Reform Committee and focused on regulatory audits—an annual report to Congress by the Office of Information and Regulatory Affairs of the Office of Management and Budget.

A common theme among all of these hearings was Congress's concern that federal agencies, if left unchecked, would have a tendency to overregulate, especially hurting small business. Congress recognized that Advocacy could be an important counterweight to this tendency and could help make agencies more aware of their responsibilities toward small business.



Chief Counsel Tom Sullivan joins the 2002 Advocate and Special Award winners. Back row, from left: Beverley Williams, Tom Sullivan, Joseph Forney, Jim Blasingame, David Lizárraga. Front row, from left: Lalit Chordia, Sandy Licata, Deborah Brown, Alan Yee, Zack Phillips. Not pictured: Adrian Lugo.

## Recent Tax Reports Document Tilted Tax Burden

Taxes and tax compliance have the greatest impact on the most small businesses of any area of federal government activity. Do you find this topic interesting? Then you may be a glutton for punishment. And you're also in luck—during the 2002 tax season two new reports and an updated list of the 10 worst tax headaches were released.

• **The Internal Revenue Code: Unequal Treatment between Large and Small Firms.** *A study by the Prosperity Institute commissioned by National Small Business United (NSBU).*

The NSBU conducted a study of 21 sections of tax law that treat small and large businesses unequally—providing very generous benefits to large businesses or their employees while reducing the benefit to small business or excluding them completely. NSBU's report looks at such tax-favored programs as pensions, health plans, educational assistance programs, stock option plans, and cafeteria plans, and it pinpoints those provisions that deny small businesses their full share. The report also recommends solutions that Congress or the IRS could undertake to correct these disparities. To read the full 51-page report, go to [www.nsbu.org/02/NSBU\\_TaxReport.pdf](http://www.nsbu.org/02/NSBU_TaxReport.pdf).

• **The Cost of Tax Compliance.** *A study by the Tax Foundation.*

The Tax Foundation analyzes government records of the time needed to comply with tax requirements to compute what it terms "the other tax," namely the cost of complying with federal tax requirements above and beyond any tax owed. The study points out that the cost of tax compliance has grown tremendously, not only because of the inherent difficulty of taxing income, but also because of growing non-economic demands being placed on the tax code. The study's

principal finding is that individuals, businesses, and nonprofits in 2002 will spend an estimated 5.8 billion hours complying with the federal income tax code, and the cost of compliance is estimated at more than \$194 billion. The Tax Foundation likens this burden to a 20.4 cent surcharge for every dollar the income tax system collects.

(For the entire report, visit [www.taxfoundation.org/compliance2002.html](http://www.taxfoundation.org/compliance2002.html))

**Top 10 Small Business Tax Headaches.** *Compiled by the National Federation of Independent Business (NFIB).*

On April 15, the NFIB posted their small business members' top 10 tax issues in need of attention from the IRS and/or Congress. Their number one issue is the uncertainty caused by the "sunset" of tax reform set for 2011. Basically, the reductions passed in summer 2001 as part of the President's tax plan will cease to exist in 2011—creating untold havoc—unless another bill is passed making them permanent. Also near the top of the list are the low ceiling for business investment expensing (the section 179 limit), the high cost of tax compliance, and the dramatic increase in alternative minimum taxpayers. To see the entire list, go to [www.nfib.com](http://www.nfib.com), go to the "newsroom," and look under "national news releases" (issue date: April 15, 2002).

These recent studies make important points about the undue costs of compliance for small businesses. The Office of Advocacy's 2001 report, *The Impact of Regulatory Costs on Small Firms* by Mark Crain and Thomas D. Hopkins, found that it costs small businesses twice as much per employee to comply with tax laws as it costs large businesses. Advocacy has been monitoring the

### The Small Business Advocate

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tax burden on small business for 20 years, and this recent report placed a special emphasis on quantifying the regulatory burden over the previous seven years. To see the full report, visit [www.sba.gov/advo/research/rs207tot.pdf](http://www.sba.gov/advo/research/rs207tot.pdf)

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# Message from the Chief Counsel

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## Advocacy's Congressional Partners

by Tom Sullivan, Chief Counsel for Advocacy

The Office of Advocacy relies on many partners to get our job done. We work with small business owners and the trade associations with which they are affiliated to find out the problems that federal rules and regulations may be creating for small businesses. We negotiate with federal agencies to make sure that their rulemaking processes comply with the Regulatory Flexibility Act (RFA) and the Small Business Regulatory Enforcement Fairness Act (SBREFA). We work closely with our own agency, the Small Business Administration, and particularly the Office of the National Ombudsman, to focus on areas where we can be effective in improving the regulatory climate for small business.

Congress, too, is our partner. The basic law setting up the Office of Advocacy (P.L. 94-305) detailed the office's many functions in working with federal agencies to assure small business input in the regulatory process. That law also provides for Advocacy to "make legislative and nonlegislative proposals for eliminating excessive or unnecessary regulations on small business."

Congress has strengthened the tools available to us by passing such laws as the RFA and SBREFA. In turn, our office tries to provide Congress with as much reliable information on small business as possible so that when Congress considers small business matters, they have the best available research and information at their disposal. That is one important reason we have a research arm in the Office of Advocacy.

The information flow between Congress and the Office of Advocacy takes many forms. At the simplest level, I try to make sure that I am available for consultation with

members of Congress and their staff at all times. I meet with the chairmen, ranking members, and top staff of the House and Senate Small Business Committees regularly. My staff is constantly in touch with their congressional counterparts. Briefings for individual members or groups of members take place often.

The most formal kind of communication is official testimony. In the past three months I have testified before the House Small Business Committee four times:

- March 6 on agency compliance with SBREFA;
- March 20 on strengthening the Office of Advocacy;
- April 10 on improving the Center for Medicare and Medicaid's (CMS) compliance with the RFA; and
- May 16 on how government agencies (including CMS) can benefit from early consideration of small business impact.

I also testified on March 12 before the House Government Reform Committee Subcommittee

on Energy Policy, Natural Resources, and Regulatory Affairs on the topic of regulatory audits.

Written communications are also important. We frequently receive requests for comments on proposed legislative items. Even official testimony can generate further questions and written answers that shed light on the subject.

Every year during Small Business Week, Advocacy hosts a Congressional Luncheon to honor our national Advocate and Special Award Winners. On this occasion we recognize small businesses' important congressional allies, as well.

All of this communication is necessary because Congress's actions have an impact on the climate for small business success or failure. Agencies take their guidance in developing rules and regulations from the legislation that Congress enacts. We try to make sure agency interpretations consider small business impact. That task is easier when Congress has already done so in the original bill.

### For More Information

Visit the Senate and House Small Business Committee webpages for the latest information about Congress and small business issues.

- [www.senate.gov/~sbc/](http://www.senate.gov/~sbc/) Senate Committee on Small Business and Entrepreneurship; Chairman: Sen. John Kerry (D-Mass.)
- [sbc.senate.gov/repUBLICAN/](http://sbc.senate.gov/repUBLICAN/) Senate Committee on Small Business and Entrepreneurship; Minority Webpage; Ranking Member: Sen. Christopher Bond (R-Mo.)
- [www.house.gov/smbiz/](http://www.house.gov/smbiz/) House Small Business Committee; Chairman: Rep. Donald Manzullo (R-Ill.)
- [www.house.gov/smbiz/democrats/](http://www.house.gov/smbiz/democrats/) House Small Business Committee Minority Webpage; Ranking Member: Rep. Nydia Velázquez (D-N.Y.)

The text of Advocacy's testimony can be found on the office website, [www.sba.gov/advo](http://www.sba.gov/advo). To sign up to receive notifications of Advocacy's new testimony, research, and regulatory review activity, visit <http://web.sba.gov/list>.

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## Highlights of Small Business Week 2002

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National Small Businessperson of the Year Thanh Quoc Lam and his wife, Xuan Thiyen Chau, chat with Journalist of the Year Jim Blasingame.



Senate Committee on Small Business and Entrepreneurship Chairman Sen. John Kerry (D-Mass.) and Veteran Small Business Advocate Joseph K. Forney (right).



House Small Business Committee Chairman Rep. Donald Manzullo (R-Ill.) addresses the Congressional Luncheon audience.



Exporter of the Year Lalit Chordia, Chief Counsel Tom Sullivan, and Lalit's mother, Shoba Moolchand.



Women in Business Advocate Sandy Licata and Sen. Christopher Bond (R-Mo.).



Michael Dell, CEO of Dell Computers, shares a lively conversation with Hector Barreto (left) and an audience of Small Business Week winners.

# Small Business by the Numbers

## Answers to Frequently Asked Questions

### Small businesses . . .

- represent more than 99% of all employers
- employ 51% of private-sector workers, 51% of workers on public assistance, and 38% of workers in high-tech jobs
- represent nearly all of the self-employed, which are 7.0% of the work force
- provide two-thirds to three-quarters of the net new jobs
- produce 51% of private-sector output
- represent 96% of all exporters of goods
- obtain 33.3% of federal prime and subcontract dollars
- are 53% home-based and 3% franchises

Sources: U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; Advocacy-funded study by Joel Popkin & Company; U.S. Department of Commerce, International Trade Administration; SBA Office of Government Contracting.

### Q: What is a small business?

**A: A business with fewer than 500 employees.** For research purposes, the Office of Advocacy uses the small business definition of fewer than 500 employees and provides information for firms of various sizes. For technical purposes such as government contracting, the definition varies by number of employees and by gross revenues. You can learn more from the SBA's Office of Size Standards at (202) 205-6618 or visit [www.sba.gov/size/](http://www.sba.gov/size/).

### Q: How many total businesses are there?

**A: About 22.4 million in 2001.** Business tax returns totaled 25.6 million in 2001. This number may overstate the number of businesses because, for example, one business may operate more than one taxable entity. Given:

- There were 16.15 million small businesses without employees in 1999, the latest data year for Census Bureau nonemployer statistics, and
  - The number of sole proprietorships—roughly equivalent to nonemployers—increased by 1.1 percent in 2000 and 1.6 percent in 2001 (Internal Revenue Service Statistics of Income), and
  - There were 5.61 million businesses with employees in 1999 (Bureau of the Census, Statistics of U.S. Business).
- By applying the sole proprietorship growth rates to the

nonemployer figures, applying similar growth rates from the Department of Labor to the employer figures, and adding together the resulting numbers for employer and nonemployer firms, the Office of Advocacy finds that 22.4 million is a fair approximation of the number of existing businesses.

### Q: How many *small* businesses are there?

**A: About 22.4 million.** Subtracting the 17,000 businesses that are large (with 500 or more employees) from the 22.4 million total (22.4 million minus .017 million) still leaves a total of about 22.4 million small businesses.

### Q: How many businesses do women own?

**A: Women were full or part owners of 9 million businesses and the primary owners in 5.4 million of these** (Bureau of the Census). The number of women-owned businesses increased by 16 percent over the 1992-1997 period, the most recent period for which comparative data are available.

### Number of Firms by Various Measures, 1991-2001 (Millions)

	1991	2000	2001	Annual Change
Nonfarm Firms				
Total	NA	22.06*	22.41*	1.6%
Nonemployers	NA	16.33*	16.59*	-
Employers	5.05	5.73*	5.82*	-
Nonfarm Bus. Tax Returns	20.50	25.11*	25.55*	1.8%

\* Estimate.

NA = not available.

Sources: Advocacy estimates using U.S. Census Bureau and U.S. Department of Labor data; U.S. Census Bureau, Statistics of U.S. Business (Advocacy funded); and Internal Revenue Service.

### Q: How many businesses do minorities own?

**A: In 1997 there were 1.2 million Hispanic-owned firms, 820,000 African-American-owned firms, 913,000 Asian- and Pacific-Islander-owned firms, and 197,300 firms owned by American Indians and Alaska Natives** (Bureau of the Census). Over the 1992-1997 period, Native American-owned firms increased 84 percent; Asian-owned, 30 percent; Hispanic-owned, 30 percent; and African-American-owned, 26 percent.

The SBA's Office of Advocacy was created by an act of 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 instant access to small business resources, statistics, and research, visit the Office of Advocacy's home page at <http://www.sba.gov/adv/>.

Updated May 2002

## Q: How many businesses open and close each year?

**A: In 2001, of the businesses with employees, about 574,500 (10.0 percent) were new and about 585,800 (10.2 percent) closed** (Advocacy estimates). Not all business closings are failures: 57.4 percent of business owners with employees and 38.2 percent of those without employees reported they were successful at closure. In 2001 the number of bankruptcies totaled 39,719, up from the previous year, but below the levels of the early 1990s.

### Business Turnover, 1991–2001

	1991	2000	2001	Annual change
New Employer Firms	541,141	604,500*	574,500*	-5.0%
Employer Firm Closures	546,518	560,600*	585,800*	4.5%
Bankruptcies	70,605	35,219	39,719	12.8%

\* Estimate.

Sources: Advocacy estimates; U.S. Census Bureau; U.S. Department of Labor, Employment and Training Administration; Administrative Office of the U.S. Courts.

## Q: What is the survival rate for new firms?

**A: Two-thirds survive at least two years.** According to an Advocacy study of businesses over the 1989-1992 period, about 66 percent of businesses with employees remain open at least two years after startup, 49.6 percent are open at least four years, and 39.5 percent are open after six years.

## Q: How many new jobs do small businesses create?

**A: Two-thirds to three-quarters of net new jobs.** The number depends on the years studied and reflects economic trends. In 1998-1999, the most recent data period, small businesses created 1.74 million (67.4 percent) of 2.59 million net new jobs.

## Q: What is small firms' share of employment?

**A: About 50 percent.** Although small firms create more than half of the new jobs, their share of employment has remained steady at about 50 percent because in creating jobs, some small firms become large firms. Of 110.7 million nonfarm private sector workers in 1999, small firms with fewer than 500 workers employed 55.7 million and large firms employed 55 million; smaller firms with fewer than 100 employees employed 40.1 million.

## Q: How are small businesses financed?

**A: About 82.5 percent of small firms used some form of credit in 1998. Small firms use many different sources of**

**capital, including their own savings, loans from family and friends, and business loans from financial institutions.** About 55 percent used loans from depository institutions. Forty-five percent had personal credit cards and 33 percent had business credit cards (Federal Reserve Board, *Survey of Small Business Finances*).

### Small Firms using Financial Services, 1998

(Percent reporting use of various types of credit)

Credit Type	Total Small	Owner Type			
		Women	Asian*	Black	Hispanic
Credit Lines, Loans,					
Capital Leases	55.1	46.1	46.4	48.2	52.7
Business Credit Cards	33.3	28.2	26.9	28.8	29.0
Personal Credit Cards	45.1	46.7	52.8	44.1	41.8

\* Includes Pacific Islander.

Source: Federal Reserve Board, *Survey of Small Business Finances*, 1998.

## Q: How do regulations affect small firms?

**A: Very small firms with fewer than 20 employees spend about double the amount per employee spent by larger firms to comply with federal regulations.**

### Cost of Federal Regulations by Firm Size, All Business Sectors (Dollars)

Type of Regulation	Cost per Employee for Firms with:	
	<20 Employees	500+ Employees
All Federal Regulation	6,975	4,463
Environmental	3,328	717
Economic	1,616	2,485
Workplace	829	698
Tax Compliance	1,202	562

Source: *The Impact of Regulatory Costs on Small Firms*, an Advocacy-funded study by W. Mark Crain and Thomas D. Hopkins.

## Q: Whom do I contact about regulatory impacts?

**A: To submit comments on proposed regulations, send email to [advocacy@sba.gov](mailto:advocacy@sba.gov).** To follow up on regulatory enforcement issues, email [regfair@sba.gov](mailto:regfair@sba.gov).

## Q: How can I get more information?

**A: For more detailed information from the Office of Advocacy, visit [www.sba.gov/advo/](http://www.sba.gov/advo/).** Please sign up at <http://web.sba.gov/list> for email delivery of news releases, *The Small Business Advocate* newsletter, small business research findings and statistics, and regulatory communications. For technical or financial assistance, call the SBA Answer Desk at 1-800-U-ASK-SBA.



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## Highlights of Small Business Week 2002

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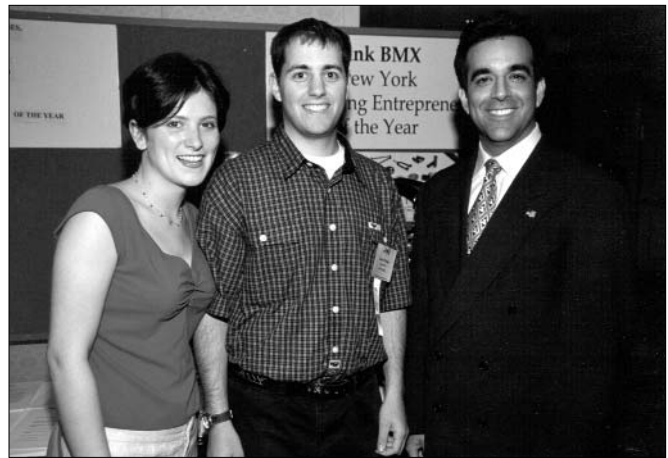
Financial Services Advocate of the Year Deborah K. Brown, Rep. C.L. "Butch" Otter (R-Idaho), and Idaho Businessperson of the Year Elaine Martin.



Rep. Nydia Velázquez (D-N.Y.) with Minority Advocate of the Year David Lizárraga.



Accountant Advocate of the Year Alan Yee and Eleanor Yee.



Young Entrepreneur of the Year Zack Phillips (center), his wife Cindy Phillips, and SBA Administrator Hector Barreto.



Home-Based Business Advocate of the Year Beverly K. Williams and her husband, John Williams.



SBA Deputy Administrator Melanie Sabelhaus (center) speaks with SBA Ombudsman Michael Barrera and Sandy Licata, Women in Business Advocate of the Year.

## Two Studies Examine Entrepreneurship Worldwide

As the link between entrepreneurship and national economic growth has become more widely known, more resources are being devoted to understanding the phenomenon of entrepreneurship. Two new studies examine entrepreneurship in a global context. Now in its third year, the Global Entrepreneurship Monitor (GEM) is an ongoing research project involving 29 countries. The GEM study is led by Babson University and London Business School and sponsored by the Kauffman Center for Entrepreneurial Leadership and IBM. *Entrepreneurship in Emerging Economies: The Creation and Development of New Firms in Latin America and East Asia* is a nine-country comparative study sponsored by the Inter-American Development Bank (IDB).

The GEM 2001 executive summary found that, at any given point, slightly less than 10 percent of the population in the surveyed nations

is in the process of creating and growing new businesses. In developed nations, entrepreneurs were more likely to start a business to take advantage of a unique market opportunity. In developing nations, entrepreneurs tended to start businesses out of necessity, since starting and expanding a businesses may be the best economic option available. The GEM study clearly identified government regulatory burdens as a major deterrent to higher levels of entrepreneurial activity.

The IDB study found the growth of Latin American startups has lagged behind that of East Asian entrepreneurs, who enjoy a more favorable business environment and better support from local institutions. East Asian entrepreneurs also have more social mobility, with nearly half coming from the lower and middle classes, compared with about one-quarter of Latin American entrepreneurs. The report examines policy and infrastructure changes

that would help support entrepreneurship in both regions.

Obtain the GEM 2001 executive report from [www.gemconsortium.org](http://www.gemconsortium.org). For details about the IDB report, visit [www.iadb.org/sds/sme](http://www.iadb.org/sds/sme) (English) or [www.iadb.org/sds/ifm\\_s.htm](http://www.iadb.org/sds/ifm_s.htm) (Spanish) and select "publications."

### Easier Access to Electronic Resources

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- Advocacy's regulatory actions.

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