

## Advocacy Announces the 2008 Top 10 Current Rules Ready for Review

The Office of Advocacy announced the 2008 Top 10 Current Rules for Review and Reform at the National Press Club on February 28. The Top 10 are drawn from over 80 rules nominated by small business owners and their representatives in response to the Advocacy's Regulatory Review and Reform (r3) initiative. The 2008 Top 10 rules have been transmitted to the appropriate federal agencies for their action.

"The strongest and most compelling cases made our 2008 Top 10 list of rules," said Thomas M. Sullivan, chief counsel for advocacy. "These rules, nominated by small business, need to be reviewed by federal agencies to determine if they are outdated, ineffective, duplicative, or overly complex. Streamlining and updating these

regulations could help to ease the disproportionate federal regulatory burden placed on small business."

Advocacy created the r3 initiative as a way to address the cumulative burden of federal regulations that now costs our economy \$1.1 trillion per year, which is more per household than the average annual cost of health insurance. The smallest of businesses bear the brunt of regulations. According to Office of Advocacy research, they annually pay 45 percent more per employee to comply with federal regulations than big businesses do.

In order to track agency action on the Top 10, Advocacy has posted the rules to its website [www.sba.gov/advo/r3](http://www.sba.gov/advo/r3), and an update on the status of agency reviews will be published twice a year.

*Continued on page 4*



Kent Hoover, Washington bureau chief for the American City Business Journals, poses a question about regulatory reform at the National Press Club on February 28.

## In This Issue

### Message from the Chief Counsel

RFA Saves Small Business  
\$2.6 Billion ..... 3

### Regulatory News

Advocacy Announces Top 10  
Rules for Review and Reform 1

The Top 10 Rules..... 4

### Economic News

Small Business Economic  
Indicators, Fourth Quarter  
2007 ..... 5-6

### Research Notes

Trio of New Advocacy  
Reports ..... 7

### Regional Roundup

Missouri RegFair Board Cuts  
Red Tape ..... 2

Gartland Addresses Florida  
Committee ..... 8

### Tax News

Qualified Partnerships May Use  
Schedule C ..... 7

Tax Calendar Available ..... 7

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## Regional Roundup

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### Regulatory Fairness Board Cuts Red Tape

by Nancy Zurbuchen

It was Friday afternoon just outside the northeast Missouri state line. A small trucking company had a caravan of semi trucks, each hauling one huge wind turbine blade, moving towards the Missouri border. Their destination was no more than 20 miles inside the state, but as required by the Missouri Department of Transportation (MoDOT), the caravan had to stop at the border and wait on a pre-arranged highway patrol escort. After repeated and increasingly desperate phone calls, the owner of the company was told that the officers were busy and would not be able to provide the escort after all; and no, there were no other alternatives or backup plans that met MoDOT regulations. Furthermore, since it was Friday, the escort could not be provided until Monday morning. In the end, hands tied with red tape, the trucking company's owners had no choice but to endure the financial loss of having the caravan of trucks sit on the side of the highway all weekend. If you were the company owner, what would you do?

The incident is just one example of how the new Missouri Small Business Regulatory Fairness Board (SBRFB) can be an invaluable resource for small businesses. The owner of the trucking company notified the SBRFB, noting not only the distress of her experience, but also pointing out the potential adverse effect such regulation could have on the development of wind

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*Nancy Zurbuchen is president of Motion Multimedia and director of the Kansas City Council of Women Business Owners. This article previously appeared in the February 2008 edition of KC Business Magazine.*

energy in the state. The SBRFB began making inquiries into the incident.

The Missouri SBRFB was established in 2005 for the purpose of giving small businesses a voice in the development and enforcement of regulations that affect them. Its goal is to make Missouri friendly to small business, thereby boosting its economic strength. In this regard, the SBRFB is the nexus of communication between small businesses and state agencies.

As a new appointee to the board, what I find most exciting is the legislation that includes the tools necessary for the board to carry out its designated responsibilities, in both proactive and reactive ways. Through the board, agencies are directed to do several things in the interest of small business. They must obtain input from small businesses when crafting rules and document the efforts. They must write a small business impact statement and submit it to the SBRFB for each proposed rule that affects small businesses prior to the rule being enacted. Further, the board is reactive to existing problems with current rules. Agencies must consider alternative methods of compliance for small businesses, take into account the size of the business when imposing fines and provide timely responses to written investigative requests from the SBRFB. In addition, an annual evaluation report produced by the SBRFB helps to ensure that all participants are clear on expectations and performance. Lastly, the legislation must provide budgetary resources and staffing to support the work of the board.

Interestingly, Missouri is at the leading edge of all states in

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terms of this type of legislation and board function. Other states have similar legislation, but frequently it is Missouri that is cited as an example for best practices. Nationally, credit goes to the Small Business Administration's Office of Advocacy for writing the sample legislation. In Missouri, credit goes to Governor Matt Blunt, for his significant interest in supporting small business; State Representative Brian Baker, for sponsoring the bill; and State Senator LuAnn Ridgeway, for her support as chairwoman of the Small Business Committee.

The SBRFB provides an ear and an ally to small businesses experiencing problems related to state agencies. The board has helped a campground owner, an optometrist and an IT company—all with issues far less dramatic than that of the trucking company but still vexing for the business owners. For further information, contact the commission coordinator at (573) 526-3606.

*Editor's note: Review of Missouri's highway escort rule is underway to determine how to address the problem in the future.*

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## Message from the Chief Counsel

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### RFA Saves Small Businesses \$2.6 Billion in Fiscal Year 2007

by Thomas M. Sullivan, Chief Counsel for Advocacy

Why do we need the Regulatory Flexibility Act?

Small businesses pay more and spend more time to comply with federal regulatory requirements than larger businesses do. In fact, Office of Advocacy research shows that the annual cost per employee for the smallest firms (fewer than 20 workers) was 45 percent higher than the cost for large businesses with 500 or more employees.

This uneven burden is one reason that Congress passed the RFA in 1980. This law requires federal agencies to assess the impacts of their proposed new rules on small businesses. If the rule is expected to have a significant impact, the RFA directs agencies to be flexible—to consider alternatives that lighten the impact on small business, while still achieving the regulation's goal.

The RFA requires Advocacy to monitor agency compliance with the RFA and report to Congress and the President. The fiscal year 2007 edition of the annual *Report on the Regulatory Flexibility Act* shows significant regulatory cost savings. Small businesses realized \$2.6 billion in first-year cost savings (the difference in the cost of complying with the proposed rules and the final rules after Advocacy's intervention). Another \$285 million in annually recurring savings also resulted from Advocacy's efforts.

In future years, the annual RFA report will go even further. While the RFA focuses on rules before they come into being, a little-used but extremely important RFA requirement—section 610—calls on agencies to periodically review the impact of regulations that are already on the books.

In summer of 2007, Advocacy launched a new initiative to invigorate section 610. This initiative—Regulatory Review and Reform or r3—focuses attention on existing rules and invites small businesses to participate in the review process.

Federal agencies already conduct regulatory reviews. But as a recent report by the General Accountability Office points out, the public is not made aware of these reviews, hence public input is not a standard part of the review process.

Through r3, small businesses have identified over 80 rules in need of review and reform, and Advocacy has narrowed the list down to the Top 10. Advocacy has announced the rules and forwarded them to the appropriate agencies for their action. Advocacy will report twice a year on agency progress on its website, [www.sba.gov/advo/r3](http://www.sba.gov/advo/r3), and progress will also be reported in the annual RFA report.

These regular status reports will help keep attention on these rules over the prolonged period that reform often takes.

Some of this year's top 10 rules affect particular industries, while others affect entire categories of businesses. At Advocacy's February 28 press conference announcing the Top 10, Dan Nickey, chairman of the State Small Business Environmental Assistance Program's National Steering Committee, discussed how Clean Air Act requirements are affecting the dry cleaning industry. Certain provisions were written 25 years ago for dry cleaning equipment that is now being phased out. These provisions cannot be easily applied to the modern machines that have been designed to drastically reduce the release of dry cleaning solvents into the atmosphere, an important intention of the Clean Air Act. The outdated testing requirements may

*Continued on page 8*



Panelists at Advocacy's r3 press conference: Dan Nickey, Wayne Crews, and Josh Levine.

## Rules for Review, from page 1

The 2008 Top 10 rules were chosen on the basis of several factors:

- Whether the rule could reasonably be tailored to accomplish its intended objectives while reducing the impact on small businesses or small communities;

- Whether the rule has ever been reviewed for its impact on small entities;

- Whether technology, economic conditions, or other factors have changed since the rule was originally written;

- Whether the rule imposes duplicative requirements; and

- The overall importance of the rule to small businesses and small communities.

After significant review and analysis of the 82 nominations received, the Chief Counsel for Advocacy selected the 10 nominations. They are listed in alphabetical order by agency below.

## 2008 Top 10 Current Rules for Review and Reform

Rule	Agency	Description
Update air monitoring rules for dry cleaners to reflect current technology	Environmental Protection Agency (EPA)	Revise testing requirements to reward environmentally friendly dry cleaning methods.
Flexibility for community drinking water systems	Environmental Protection Agency (EPA)	Expand ways for small communities to meet protective drinking water standards.
Simplify the rules for recycling solid wastes	Environmental Protection Agency (EPA)	Simplify the rules for recycling useful materials that, because of their current classification, must be handled, transported, and disposed of as hazardous wastes.
Clearly define “oil” in oil spill rules	Environmental Protection Agency (EPA)	Clarify the definition of “oil” in the oil spill program, so that small facilities storing nonpetroleum-based products are not unintentionally captured by spill program requirements.
Update flight rules for the Washington, D.C., regional area	Federal Aviation Administration (FAA)	Review the flight restriction rule for the region surrounding Washington, DC, to determine whether it could be revised to avoid harming small airports within the region.
Eliminate duplicative financial requirements for architect-engineering services firms in government contracting	Federal Acquisition Regulation (FAR) Council	Remove or reduce duplicative retainage requirements in architect-engineering services contracts, as has been done for other services.
Simplify the home office deduction	Internal Revenue Service (IRS)	Permit a standard deduction for home-based businesses, which constitute 53 percent of all small businesses.
Update rules on the use of explosives in mines to reflect modern industry standards	Mine Safety and Health Administration (MSHA)	Update to be consistent with modern mining industry explosives standards.
Review the medical/laboratory worker rule	Occupational Safety and Health Administration (OSHA)	Review to determine whether it can be made more flexible in situations where workers do not have potential exposure to bloodborne pathogens.
Reverse auction techniques for online procurement	Office of Federal Procurement Policy (OFPP)	Review system to examine how reverse auctions impact small firms.

## FOURTH QUARTER 2007: THE ECONOMY AND SMALL BUSINESS

### Trends

- The U.S. economy was weaker in the fourth quarter of 2007, with real GDP ending the year at a 0.6 percent annualized growth rate. The weaker dollar helped boost real exports, which increased at an annualized 3.9 percent, while real imports were constant. Consumer spending increased by an annualized 2.0 percent. Investment remained weak, particularly in the residential sector where the nation has seen steady declines. In December 2007, new housing starts averaged an annualized 1.0 million homes—less than half the average level seen in 2005. The Institute for Supply Management’s manufacturing composite index fell below 50 in December—the lowest reading since April 2003—suggesting that manufacturing output was contracting.
- The public remained somewhat pessimistic in the fourth quarter according to both the National Federation of Independent Business’s optimism index and the University of Michigan’s consumer sentiment survey.
- Unemployment rose to 5.0 percent in December 2007, its highest level since April 2005. It was low by historical standards, however. The economy generated 282,000 net new jobs in the fourth quarter, and 1.1 million during the entire year. The goods-producing sectors of construction and manufacturing saw declines. Nearly all of the net job gains in 2007 stemmed from service industries: trade, transportation, and utilities; professional and business services; education and health services; leisure and hospitality; and government. Unincorporated self-employment fell in the fourth quarter, and incorporated self-employment remained essentially unchanged. Nonfarm labor productivity grew slower in the fourth quarter than in the previous two quarters.
- The Federal Reserve Board lowered its target federal funds rate twice in the fourth quarter of 2007. As a result, the prime rate, which began the quarter at 7.75 percent, ended it at 7.25 percent. (*Editor’s note: As of today, the rate has fallen further – courtesy of additional cuts by the Federal Reserve in the first quarter of 2008 – and now stands at 6.0 percent.*) The Federal Reserve’s Senior Loan Officers’ Survey suggests sustained weakness in the demand for small loans, with some tightening of lending standards. Two other indicators—the total amount of venture capital deals and the total amount invested—both fell in the fourth quarter of 2007, but they were higher than in the fourth quarter of 2006.
- Inflationary pressures persisted, as the country saw large gains in consumer prices. When examining core inflation, which excludes food and energy prices, inflation appeared more modest—growing at an annualized 2.7 percent in the fourth quarter. The price of oil, which surpassed \$100 per barrel at one point in December, averaged \$91.37 for the month, up \$11.44 for the quarter and nearly \$30 for the year. Employee benefit costs outstripped gains in employee wages and salaries.

### Small Business Indicators

	Last five years					Last five quarters					Trends	
	2002	2003	2004	2005	2006	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07	This Quarter	Q4-06 to Q4-07
Business bankruptcy filings (thousands)	38.5	35.0	34.3	39.2	19.7	5.6	6.3	6.7	7.2	--	--	--
Proprietors’ income (\$billion, current dollars)	768.4	811.3	911.1	970.7	1015.1	1009.8	1027.4	1038.4	1048.7	1057.3	↑ 3.3% (a)	↑ 4.7%
Prime bank loan rate	4.7	4.1	4.3	6.2	8.0	8.3	8.3	8.3	8.2	7.5	↓ 0.7	↓ 0.7
Rates for smallest loans (less than \$100,000):												
Variable rate loans, repricing terms of 2-30 days	5.1	4.4	4.4	6.0	7.7	7.9	7.8	8.0	7.8	7.2	↓ 0.6	↓ 0.7
Variable rate loans, repricing terms of 31-365 days	6.6	6.4	6.2	7.1	8.4	8.6	8.8	8.7	8.6	8.1	↓ 0.5	↓ 0.5
Senior loan officers (percent of respondents):												
Net small firm C&I lending standards (those whose standards were eased minus those tightened)	-20.0	-7.1	13.1	9.0	4.6	1.8	0	-1.9	-7.7	-9.6	↓ 1.9	↓ 11.4
Net small firm demand for C&I loans (those whose demand was stronger minus those weaker)	-40.0	-14.7	25.9	27.3	0.2	-13.0	-5.3	-19.2	-11.8	-7.7	↑ 4.1	↑ 5.3
Venture investment: number of deals	3092	2922	3082	3138	3630	918	858	1018	974	963	↓ 11	↑ 45
Venture investment: total invested (\$billion)	22.0	19.7	22.5	23.0	26.6	6.3	7.5	7.3	7.6	7.0	↓ 0.6	↑ 0.7

**Notes:** a=annualized growth rate. The third quarter figure is for July and measures from April. C&I = commercial and industrial loans. Trends may reflect rounding error.

**Sources:** Administrative Office of the U.S. Courts; Board of Governors of the Federal Reserve System; National Venture Capital Association; U.S. Department of Commerce, Bureau of Economic Analysis.

	Last five years					Last five months (2007)					Trends	
	2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
NFIB Small Business Optimism Index (1986 = 100)	101.2	101.3	104.6	101.6	98.9	96.3	97.3	96.2	94.4	94.6	↓ 2.7	↓ 1.9
NFIB: next 3 months “good time to expand” (percent of respondents)	14.3	15.7	22.3	20.6	17.4	12.0	14.0	14.0	13.0	14.0	0	↓ 3.0
NFIB: net percent planning to hire in the next 3 months	10.8	10.2	15.3	14.4	14.6	15.0	14.0	11.0	11.0	11.0	↓ 3.0	↑ 1.0
Self-employed, incorporated (millions)	4.6	5.0	5.2	5.3	5.5	5.8	5.7	5.8	5.9	5.8	↑ 0.1	↑ 0.1
Self-employed, unincorporated (millions)	9.9	10.3	10.4	10.5	10.6	10.6	10.5	10.3	10.1	9.9	↓ 0.6	↓ 0.7

**Sources:** National Federation of Independent Business; Current Population Survey, U.S. Bureau of Labor Statistics.

For previous quarterly indicators, visit [www.sba.gov/advo/research/sbei.html](http://www.sba.gov/advo/research/sbei.html). Note that historical data are revised periodically, and this version reflects such changes.

### Employment by Major Sector (millions)

	Percent small business	Last five years					Last five months (2007)					Trends	
		2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
<b>Goods-producing industries</b>	<b>57.61</b>	<b>22.55</b>	<b>21.81</b>	<b>21.88</b>	<b>22.19</b>	<b>22.53</b>	<b>22.18</b>	<b>22.14</b>	<b>22.10</b>	<b>22.05</b>	<b>21.99</b>	<b>↓0.15</b>	<b>↓0.45</b>
Natural resources and mining	51.24	0.58	0.57	0.59	0.63	0.68	0.73	0.73	0.73	0.74	0.74	↑0.01	↑0.03
Construction	86.43	6.72	6.74	6.97	7.33	7.69	7.61	7.59	7.58	7.52	7.48	↓0.11	↓0.22
Manufacturing	44.00	15.26	14.51	14.32	14.23	14.16	13.84	13.82	13.80	13.79	13.77	↓0.05	↓0.26
<b>Service-producing industries</b>	<b>49.36</b>	<b>107.79</b>	<b>108.18</b>	<b>109.54</b>	<b>111.51</b>	<b>113.56</b>	<b>115.58</b>	<b>115.70</b>	<b>115.88</b>	<b>115.99</b>	<b>116.13</b>	<b>↑0.43</b>	<b>↑1.59</b>
Trade, transportation and utilities	45.35	25.50	25.29	25.53	25.96	26.28	26.64	26.65	26.64	26.69	26.67	↑0.01	↑0.21
Wholesale trade	61.58	5.65	5.61	5.66	5.76	5.90	6.05	6.06	6.07	6.08	6.07	↑0.02	↑0.11
Retail trade	42.16	15.02	14.92	15.06	15.28	15.36	15.50	15.49	15.47	15.51	15.50	↑0.01	↑0.09
Information	26.17	3.39	3.19	3.12	3.06	3.04	3.02	3.03	3.03	3.02	3.01	↓0.02	↓0.02
Financial activities	41.43	7.85	7.98	8.03	8.15	8.33	8.31	8.29	8.28	8.26	8.26	↓0.04	↓0.10
Professional and business services	44.95	15.98	15.99	16.39	16.95	17.57	17.98	18.00	18.07	18.08	18.15	↑0.15	↑0.33
Education and health services	48.08	16.20	16.59	16.95	17.37	17.83	18.42	18.45	18.49	18.52	18.58	↑0.13	↑0.54
Leisure and hospitality	62.09	11.99	12.17	12.49	12.81	13.11	13.49	13.55	13.60	13.63	13.65	↑0.10	↑0.36
Other services	86.27	5.37	5.40	5.41	5.39	5.44	5.50	5.50	5.50	5.51	5.51	↑0.01	↑0.04
Government	0	21.51	21.58	21.62	21.81	21.97	22.21	22.23	22.26	22.28	22.31	↑0.08	↑0.22

**Notes:** Seasonally adjusted. See [www.bls.gov/ces/cessuper.htm](http://www.bls.gov/ces/cessuper.htm) for NAICS code equivalents for each sector. The small business percentage by sector is based on 2004 firm size data. See [www.sba.gov/advo/research/us04\\_n6.pdf](http://www.sba.gov/advo/research/us04_n6.pdf). Trends may reflect rounding error.

**Sources:** U.S. Small Business Administration, Office of Advocacy, using data from the U.S. Department of Commerce, Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics.

### Macroeconomic Indicators

	Last five years					Last five quarters					Trends (percent)	
	2002	2003	2004	2005	2006	Q4-06	Q1-07	Q2-07	Q3-07	Q4-07	This Quarter	Q4-06 – Q4-07
Real gross domestic product												
Level (\$billion)	10048.9	10301.1	10675.7	11003.5	11319.4	11395.5	11412.6	11520.1	11658.9	11677.4	↑0.6% (a)	↑4.1%
Annual percentage change*	1.6	2.5	3.6	3.1	2.9	2.1	0.6	3.8	4.9	0.6		
Real personal consumption expenditures (\$billion)*	7099.3	7295.4	7561.4	7803.6	8044.1	8141.2	8215.7	8244.3	8302.2	8342.7	↑2.0% (a)	↑2.5%
Real gross private fixed investment (\$billion)*	1557.2	1613.1	1770.2	1869.3	1919.6	1856.2	1816.9	1837.4	1859.9	1810.5	↓10.2% (a)	↓2.5%
Federal government surplus or deficit (\$billion)	-270.9	-372.2	-370.6	-318.3	-220.1	-181.5	-218.5	-206.8	-229.1	--	--	--
Real exports of goods and services (\$billion)*	1013.3	1026.1	1126.1	1203.4	1304.1	1350.9	1354.7	1379.5	1441.2	1455.0	↑3.9% (a)	↑7.7%
Real imports of goods and services (\$billion)*	1484.6	1545.0	1720.0	1821.5	1928.6	1948.2	1966.8	1953.4	1974.3	1975.9	↑0.3% (a)	↑1.4%
Corporate profits after tax (\$billion)	693.7	749.9	923.9	979.9	1099.8	1178.8	1095.2	1152.2	1152.5	--	--	--
Nonfarm business sector output per hour for all persons (1992=100)	123.5	128.0	131.6	134.1	135.4	135.6	135.9	136.6	138.6	139.2	↑1.7% (a)	↑2.7%
Employment cost index: private sector wages & salaries (2005=100)	91.6	94.2	96.8	99.2	102.0	103.2	104.3	105.1	105.9	106.7	↑3.1% (a)	↑3.4%
Employment cost index: private sector benefits (2005=100)	83.7	88.8	94.8	99.2	102.1	103.4	103.1	104.2	105.0	105.9	↑3.5% (a)	↑2.4%

**Notes:** Seasonally adjusted; \*Chained 2000 dollars; a=annualized growth rate. Real GDP and its components are preliminary data. Trends may reflect rounding error.

**Sources:** U.S. Department of Commerce, Bureau of Economic Analysis; U.S. Department of Labor, Bureau of Labor Statistics.

	Last five years					Last five months (2007)					Trends	
	2002	2003	2004	2005	2006	Aug	Sept	Oct	Nov	Dec	This Quarter	Dec 06 to Dec 07
Unemployment rate (seasonally adjusted)	5.8	6.0	5.5	5.1	4.6	4.6	4.7	4.7	4.7	5.0	↑0.3	↑0.6
Civilian employment—16 years and older (millions, seasonally adjusted)	136.5	137.7	139.2	141.7	144.4	145.8	146.3	146.0	146.6	146.2	0	↑0.3
Civilian unemployed—15 weeks and over (millions, seasonally adjusted)	2.9	3.4	3.1	2.6	2.3	2.4	2.4	2.4	2.4	2.5	↑0.1	↑0.4
Nonfarm payrolls (millions, seasonally adjusted)	130.4	130.0	131.4	133.7	136.2	137.8	137.8	138.0	138.0	138.1	↑0.3	↑1.1
Producer price index (1982=100)	131.1	138.1	146.7	157.4	164.8	172.4	173.5	174.4	179.4	178.6	↑12.2% (a)	↑7.9%
Consumer price index (all urban consumers and all items; seasonally adjusted, 1982-84=100)	179.9	184.0	188.9	195.3	201.6	207.7	208.3	208.9	210.6	211.2	↑5.6% (a)	↑4.1%
Univ. of Michigan Consumers' Sentiment (1966=100)	89.6	87.6	95.2	88.6	87.3	83.4	83.4	80.9	76.1	75.5	↓7.9	↓16.2
Spot oil price per barrel: West Texas intermediate crude	26.10	31.14	41.44	56.47	66.10	72.39	79.93	86.20	94.62	91.37	↑\$11.44	↑\$29.70
New privately owned housing units started (millions, seasonally adjusted at the annual rate)	1.7	1.9	1.9	2.1	1.8	1.3	1.2	1.2	1.2	1.0	↓47.5% (a)	↓38.2%
ISM purchasing managers index—manufacturing composite (seasonally adjusted)	50.8	51.7	59.1	54.4	53.1	51.2	50.5	50.4	50.0	48.4	↓2.1	↓3.1
Industrial production (2002=100, seasonally adjusted)	100.0	101.1	103.6	106.9	111.2	114.1	114.2	113.7	114.0	114.0	↓0.2	↑1.7
3-month Treasury bills (secondary market rate)	1.60	1.01	1.37	3.15	4.73	4.20	3.89	3.90	3.27	3.00	↓0.89	↓1.85
10-year Treasury note (constant maturity rate)	4.61	4.02	4.27	4.29	4.79	4.67	4.52	4.53	4.15	4.10	↓0.42	↓0.46

**Notes:** a = annualized growth rate. Trends may reflect rounding error.

**Sources:** Board of Governors of the Federal Reserve System; Dow Jones Energy Service; U.S. Department of Commerce, Bureau of the Census; Institute for Supply Management; U.S. Department of Labor, Bureau of Labor Statistics; University of Michigan, Survey of Consumers.

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## Research Notes

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### Trio of New Advocacy Reports

By Brad Hock, Office of Advocacy Intern

The Office of Advocacy released three new research reports in February.

*The Tax Debts of Small Business Owners in Bankruptcy* examines the effects taxes have on small business owners in bankruptcy. The study found that the tax burden is a more prevalent issue for small business owners in bankruptcy than it is for consumer petitioners.

The author found a couple of other important characteristics of bankruptcy filers. Males, who accounted for 57.1 percent of the sample, were significantly more likely to file for bankruptcy than the general population, which is 49 percent male. Homeowners were less likely to file for bankruptcy. They accounted for 47 percent of those in the bankruptcy sample but make up 67 percent of the general population, according to the study.

The study found that 30 percent of all bankrupt petitioners in the sample reported owing some kind of tax debt, and it found that individual entrepreneurs owed tax debts more often than small businesses.

*Rural and Urban Establishment Births and Deaths Using the U.S. Census Bureau's Business Information Tracking Series,*

a working paper by Lawrence Plummer and Brian Headd, was also released this month. The study found that there were 11 million establishment births and 9.7 million establishment deaths between 1990 and 2003.

Of these firms, 93.4 percent are located in metropolitan areas, and over 95 percent of firms with over 500 employees are located in metropolitan areas. However, the authors found very little difference among urban and rural areas in terms of the rate of firms entering and exiting the market. Rural areas were found to be as dynamic as urban areas, in terms of business creation and closure.

The Office of Advocacy study, *Small Business and Micro Business Lending in the United States, for Data Years 2005-2006*, found that small business loans (loans under \$1 million) and micro businesses loans (under \$100,000) did not change significantly from 2005 to 2006.

Whereas the increase in the number of loans exceeded the growth in dollars for mid-sized loans, the growth in dollars exceeded the growth in the number of loans for micro loans. The number of mid-sized loans grew by 13 percent, and

the dollars invested in micro loans grew by 5.5 percent from 2005 to 2006.

The largest lenders—those with more than \$10 billion in assets—continued to fund micro business loans heavily, especially in the credit card market, where they accounted for 75.2 percent of all loans granted.

All three reports are available on Advocacy's website:

- *The Tax Debts of Small Business Owners in Bankruptcy*, by Rafael Efrat: [www.sba.gov/advo/research/rs317.pdf](http://www.sba.gov/advo/research/rs317.pdf).

- *Rural and Urban Establishment Births and Deaths Using the U.S. Census Bureau's Business Information Tracking Series*, by Lawrence Plummer and Brian Headd: [www.sba.gov/advo/research/rs316.pdf](http://www.sba.gov/advo/research/rs316.pdf).

- *Small Business and Micro Business Lending in the United States, for Data Years 2005-2006*, by Victoria Williams and Charles Ou: [www.sba.gov/advo/research/rs318.pdf](http://www.sba.gov/advo/research/rs318.pdf).

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*Brad Hock, an undergrad at Colgate University, is an intern at the Office of Advocacy this spring.*

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## Tax News

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### Tax Election Permits Certain Married Co-Owners To Use Schedule C

For tax years beginning after December 31, 2006, the Small Business and Work Opportunity Tax Act of 2007 provides that a "qualified joint venture," whose only members are a husband and a wife filing a joint return, can elect not to be treated as a partnership for federal tax purposes. This election permits certain married co-owners to avoid filing partnership returns,

Form 1065, if each spouse separately reports a share of all of the business's items of income, gain, loss, deduction, and credit with a Schedule C (Form 1040).

For additional information, see [www.irs.gov/businesses/small/article/0,,id=177376,00.html](http://www.irs.gov/businesses/small/article/0,,id=177376,00.html).

**Tax Calendar for Small Business and Self-Employed.** The 2008 IRS

Tax Calendar is a resource to help small business owners meet their tax obligations. The calendar provides useful information on general business taxes, electronic filing and paying options, retirement plans, business publications and forms, common tax filing dates, and much more. It is available at [www.irs.gov/pub/irs-pdf/p1518.pdf](http://www.irs.gov/pub/irs-pdf/p1518.pdf).

## Region IV Advocate Speaks Before Florida House Committee

On February 15, Region IV Advocate Pat Gartland testified before the House Economic Expansion and Infrastructure Council of the Florida House of Representatives. He spoke about the mission of the Office of Advocacy in general as well as the role of the regional advocate. The testimony touched on ways that Florida could strengthen its regulatory flexibility law, including making the prepara-

tion of the “statement of estimated regulatory costs” mandatory for an agency proposing a rule.

Gartland also offered suggestions for maximizing the position of the small business ombudsman in Florida. Small business ombudsman models from other states, such as Virginia, served as a guide. In addition, he spoke about the necessity of a reporting requirement by the small business ombudsman to

the governor of Florida and the state legislature, so that interested parties could easily obtain information on proposed regulations and any flaws in the system could be detected and corrected.

Gartland continues to work with members of the Florida legislature, members of the governor’s staff, and other interested groups to protect the interests of Florida’s small businesses.

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### 2.6 Billion Saved, *from page 3*

actually hinder adoption of the newer, greener technology.

Josh Levine, a small businessman from Baltimore, Maryland, described the vagaries of the home office deduction—its complexity and the lack of clarity as to who is eligible to take advantage of it. These complexities create an additional burden for home-based businesses and the self-employed. Levine argued for review and reform of the home office tax

deduction. Creating a standard home office deduction, modeled on the standard personal deduction, would eliminate unnecessary confusion and complexity, he argued.

Wayne Crews, director of technology studies at the Competitive Enterprise Institute, has spent many years studying the unintended consequences and market distortions spawned by regulation. The effort to reform federal regulations is such a monumental task, Crews compared it to “going after Moby Dick with a rowboat and tartar

sauce.” Crews welcomed the r3 initiative. “r3 adds a propeller to the boat,” he said.

The r3 initiative will only work with small business attention and action. Advocacy encourages small business owners and their representatives to nominate rules for the 2009 Top 10, to monitor agency progress, and comment on agency progress (or lack thereof) in review and reform.

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