

## Small Business Continues To Drive U.S. Economy

By Kathryn Tobias, Senior Editor

At a luncheon meeting of the Washington Rotary Club on December 19, the Office of Advocacy's Chief Economist Chad Moutray unveiled the 2007 edition of the annual research compendium, *The Small Business Economy: A Report to the President*. "Today's report shows that overall, small firms continue to drive a resilient U.S. economy," said Moutray.

The 366-page report is filled with statistics, literature reviews, and studies of the economic environment for small businesses, including the financial markets and the federal procurement marketplace. Additional research focuses on minority- and veteran-owned

businesses, social entrepreneurship, and pre-venture planning. A summary of Advocacy's implementation of regulatory flexibility in 2006 is included. Appendix A, "Small Business Data," contains a useful compilation of historical and recent small business economic indicators.

Small businesses continued to drive the economic expansion in 2006. A softening housing market was reasonably contained in the economy's resilience.

- Output rose, business income and profits were up, and unemployment was down; small firms continued to drive employment.

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The Office of Advocacy announced the publication of *The Small Business Economy: A Report to the President* at the Washington Rotary Club on December 19. With Chief Economist Chad Moutray are Jim Brookshire, president of the Rotary of Washington, and Glynis Long, of the SBA's Office of International Trade.

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## Regulatory News

### SEC Chairman Proposes Sarbanes-Oxley Act Relief

by Janis Reyes, Assistant Chief Counsel

On December 12, the Securities and Exchange Commission (SEC) Chairman Christopher Cox announced his intention to propose that the agency give smaller public companies one more year to comply with the internal control auditing requirement of the Sarbanes-Oxley Act's Section 404.

Section 404(a) requires smaller public companies with less than \$75 million in publicly traded shares to submit a management report in 2007 on their internal controls that prevent fraud and errors. Section 404(b) would have required these businesses to submit an auditor's report evaluating and certifying these internal controls in 2008. If the SEC approves this proposal, smaller public companies would not be required to submit the auditor's report under Section 404(b) until 2009. The SEC recently approved management guidance and a new auditing standard for Section 404 compliance.

In 2007, Advocacy submitted numerous comment letters to the

SEC, urging the agency to provide flexibility in Section 404 compliance for smaller public companies whose internal control reporting costs were likely to be disproportionately higher than larger public companies' costs. In April 2007, Chief Counsel Thomas M. Sullivan testified before Congress on the impact of the Sarbanes-Oxley Act on small business. In both the comment letters and the testimony, Advocacy recommended that the SEC extend the deadline for Section 404(b) and perform a regulatory flexibility analysis on the impact of Section 404 compliance on smaller public companies.

Testifying before the House Small Business Committee, Cox stated that "The Commission's decision to proceed cautiously in deference to small public companies and their investors is due in significant part to the fact that the cost of regulation falls heaviest on small companies." Cox also noted that the proposed extension would allow the SEC to complete a study

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of the costs and benefits of Section 404, with a particular emphasis on small business impacts.

For a complete chronology of Advocacy's Sarbanes-Oxley Act activities, please visit: [www.sba.gov/advo/laws/comments/sarbanes\\_oxley.html](http://www.sba.gov/advo/laws/comments/sarbanes_oxley.html). For further assistance, contact Assistant Chief Counsel Janis Reyes at (202) 205-6533 or via email at [janis.reyes@sba.gov](mailto:janis.reyes@sba.gov).

## Regional Roundup

### Regional Advocates Available As Speakers

The Office of Advocacy's regional advocates serve as the chief counsel's eyes and ears throughout the country. They play a special role, listening to the concerns of small businesses and educating local, state, and federal officials on regulatory flexibility and the importance of small business. The regional advocates' professional breadth and civic involvement are tremendous assets to small businesses.

Their chief focus is to help identify the regulatory concerns of small business by monitoring the impact of federal and state policies at the local level. Small business organizations, trade groups, and state officials across the country frequently invite them to their state capitals to testify on how the federal Regulatory Flexibility Act benefits small business.

Please contact the regional advocate in your area to learn more

about Advocacy's activities in the states and to make them aware of the small business regulatory issues that concern you. They are also available as speakers at small business events. For complete contact information, visit [www.sba.gov/advo/region.html](http://www.sba.gov/advo/region.html) or contact Christiane Monica, director of regional affairs, at (202) 205-6749 or [christiane.monica@sba.gov](mailto:christiane.monica@sba.gov).

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## Message from the Chief Counsel

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### House Bill Helps Small Business By Improving the Regulatory Flexibility Act

by Thomas M. Sullivan, Chief Counsel for Advocacy

A new bill is making its way through Congress that will help small business by improving the Regulatory Flexibility Act (RFA); the bill would require federal agencies to analyze indirect impacts of their proposed rules. The House Small Business Committee unanimously approved the bill, the Small Business Regulatory Improvement Act (H.R. 4458), on December 13.

The bill's three RFA improvements will help ensure fair treatment of small businesses in the regulatory process. They are: consideration of foreseeable indirect impacts of proposed regulations, periodic review of existing regulations, and turning Executive Order 13272, "Proper Consideration of Small Entities in Agency Rulemaking" into permanent law.

**Background of H.R. 4458.** The RFA mandates that federal agencies consider the potential economic impact of proposed federal regulations on small entities and examine regulatory alternatives that achieve the agencies' public policy goals while minimizing small entity impacts. The Office of Advocacy is responsible for monitoring agency compliance with the law.

Passage of the Small Business Regulatory Enforcement Fairness Act (SBREFA) in 1996 improved agency compliance with the RFA, but even with SBREFA, some agencies were not complying with

the RFA's requirements. Therefore, on August 13, 2002, President Bush signed Executive Order 13272,

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**"Advocacy believes that the Small Business Regulatory Improvement Act of 2008 will go far to improve the RFA and help small entities."**

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"Proper Consideration of Small Entities in Agency Rulemaking." It directs federal agencies to implement written procedures and policies for measuring the economic impact of their regulatory proposals on small entities. It also requires agencies to notify Advocacy of draft rules that are expected to have a significant economic impact on a substantial number of small entities and to give appropriate consideration to Advocacy's comments.

#### **Indirect Economic Effects.**

One of the biggest concerns with the RFA is that it does not require agencies to analyze indirect impacts. Agencies are required to consider the direct economic impact of a regulatory action on small entities, but that analysis can overlook obvious side effects and fail to provide decision-makers with a full understanding of a rule's likely impact on small entities.

One example of this is the 2002 Immigration and Naturalization Service's (INS) rule on B-2 tourist visas. The proposed rule eliminated the minimum six-month admission period for foreign tourists and placed the onus of explaining the length of stay on the foreign visitor. Because the proposal applied to visitors to the United States, INS certified that it would not have a significant economic impact on a substantial number of small entities. In fact, small travel agents and other firms stood to lose approximately \$2 billion in revenues as a result. Because the courts have interpreted the RFA as only requiring agencies to consider a proposal's economic impact on the entities it directly regulates, INS's certification was technically correct.

In addition, many times, the duty of regulating is passed on to the states without any corresponding analysis or requirements for states to consider less burdensome alternatives for small business. Amending the RFA to require federal agencies to consider indirect impacts will help reduce the regulatory burden on small entities on the state and federal levels.

**Review of Existing Regulations.** Section 610 of the RFA requires agencies to periodically review existing rules that may have a significant economic impact on a substantial number of small entities. The purpose of the review is to determine whether such rules should be continued without change. Unfortunately, agency compliance with section 610 has historically been poor. Advocacy recommends that the RFA be amended to review all rules

*Continued on page 4*

### For More Information

Chief Counsel Sullivan testified before the House Small Business Committee on December 6. His testimony can be found at [www.sba.gov/advo/laws/test07\\_1206.html](http://www.sba.gov/advo/laws/test07_1206.html); a summary can be found at [www.sba.gov/advo/laws/summtest07\\_1206.pdf](http://www.sba.gov/advo/laws/summtest07_1206.pdf).

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## Regulatory News

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### Advocacy Roundtable Examines New Veteran Business Data

by Joseph Sobota, Assistant Chief Counsel

One of the greatest challenges that veteran business advocates face is the shortage of good data on veteran business owners and their firms, especially those owned by service-disabled veterans. Public Law 106-50 tasked Advocacy to help develop such data, and the office has produced a series of new economic research studies on veterans' business issues. These new reports, together with older studies, are posted on Advocacy's website at [www.sba.gov/advo/research/veterans.html](http://www.sba.gov/advo/research/veterans.html).

The U.S. Census Bureau included two important questions on veteran status and service-disability status in its 2002 Survey of Business Owners and Self-Employed Persons, part of the Economic Census which it conducts every five years. This was the first time a veteran business question had been asked since 1992. In July, Census released two new reports based on the survey: Characteristics of Veteran-Owned Businesses 2002 and Characteristics of Veteran Business Owners 2002. These reports represent the most detailed information Census has ever released on veterans in business, and its first ever report on service-disabled veterans in business.

On December 3, Advocacy hosted a roundtable to discuss these new data and the products from both Census and Advocacy which are based on them. Reflecting the wide interest in veteran issues, the roundtable was attended by a diverse group of stakeholders, including congressional staff, agency officials, and representatives of veteran service organizations and advocacy groups.

Advocacy's Office of Economic Research strives to incorporate veteran data into projects whenever feasible. Two Advocacy publications from December reflect this commitment. The 2007 edition of Advocacy's *Small Business Economy* includes a chapter based on the

new information from Census. And the new working paper, *Educational Attainment and Other Characteristics of the Self-Employed: An Examination Using Data from the Panel Study of Income Dynamics*, includes the veteran population in its analysis (see page 6). This study found that individuals with prior military experience are up to 11 percent more likely to be self-employed than others. In fact, the veteran correlation turned out to be the most important among a variety of variables observed.

#### For More Information

- Visit Advocacy's webpage at [www.sba.gov/advo/research/veterans.html](http://www.sba.gov/advo/research/veterans.html), for the office's veteran research.
- The new Census reports, Characteristics of Veteran-Owned Businesses and Characteristics of Veteran Business Owners, can be accessed at [www.census.gov/csd/sbo/veteran2002.htm](http://www.census.gov/csd/sbo/veteran2002.htm).
- To be automatically notified by email of new work from Advocacy on veteran entrepreneurship and other topics, sign up for one or more of Advocacy's Listservs at <http://web.sba.gov/list/>.

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#### House Bill Would Improve RFA, from page 3

periodically and submit an annual report to Congress on that review.

**Making E.O. 13272 Permanent.** One of the most important elements of E.O. 13272 is Section 3. Section 3 requires agencies to notify Advocacy of draft rules that will have a significant economic impact on a substantial number of small entities. It also requires them

to give appropriate consideration to Advocacy's comments and to address the comments in final rules. Small entities would benefit from an amendment to the RFA that would make these requirements permanent.

Advocacy believes that the Small Business Regulatory Improvement Act of 2008 will go far to improve the RFA and help small entities.



## Regulatory News

### Advocacy Submits Report on Barrier Removal Costs

On November 29, the Office of Advocacy submitted a report to the U.S. Department of Justice entitled, *Evaluation of Barrier Removal Costs Associated with the 2004 Americans with Disabilities Act Accessibility Guidelines*.

The Justice Department is considering amendments to the requirements for businesses to remove physical barriers to accessibility under the Americans with Disabilities Act (ADA). The proposal is currently under review by the Office of Management and Budget's Office of Information and Regulatory Affairs. These requirements were recommended by another agency, the Architectural and Transportation Barriers Compliance Board. In 2005, Advocacy commented to the Justice Department about the potential burden of these new requirements, noting that the costs for small firm compliance would be significant. The report compares the costs of 10 barrier removal requirement elements that are new or revised under these new standards; it assesses the cost difference for representative buildings used by small firms and those used by large firms.

This report finds that both small and large firms face substantial costs from the adoption of the barrier removal requirements in the 2004 ADA accessibility guidelines. These higher costs are associated with typical small firm buildings rather than large firm buildings, whether measured per square foot or per employee. The report made these important findings:

- Typical small firms will face total costs of between \$82,449 (typical small firm restaurant building) and \$275,375 (typical small firm hospital building) to comply with the new guidelines for barrier removal.
- Typical small firm building costs are 2.2 to 4.1 times greater

per square foot than large firms in the same industry and using the same but larger building type.

- On a per employee basis, the typical small firm building costs range from \$499 per employee for a small hospital building to \$17,458 per employee for a small hotel building. These costs are 1.5 to 7.9 times higher than those faced by larger firms.

This report was prepared by E.H. Pechan & Associates and is available on Advocacy's website at [www.sba.gov/advo/research/rs312tot.pdf](http://www.sba.gov/advo/research/rs312tot.pdf). If you have any questions on this report, please contact Assistant Chief Counsel Janis Reyes at (202) 205-6533.



Dozens of representatives of small business trade associations gathered for the Office Advocacy's Small Business Communicators Roundtable on December 13. Several panelists spoke on "Facts and Figures for Small Business Use." Featured speakers came from the Kauffman Foundation, the Census Bureau, Business.gov, [411SmallBusinessFacts.com](http://411SmallBusinessFacts.com), and Advocacy's Office of Economic Research.

## Research Notes

### Education, Military Service, and Wealth Predict Self-Employment

by John McDowell, Press Secretary

Years of education, military service, and household wealth are strong predictors of self-employment, according to a new working paper from the Office of Advocacy. The paper finds that individuals with prior military experience are up to 11 percent more likely to be self-employed than the entire population. An individual's educational level can increase the likelihood of self-employment by as much as 8.3 percent.

"We often talk about the importance of education to our own personal fulfillment and to the economy as a whole," said Advocacy's Chief Economist Chad Moutray, who wrote the paper. "This study shows that educational attainment is also a strong predictor of self-employment, with additional years of college significantly increasing the chance of being one's own boss." He added, "Homeownership—a measure of wealth—and veteran status are also vital."

The paper, *Educational Attainment and Other Characteristics of the Self-Employed: An Examination using Data from the Panel Study of Income Dynamics*, analyzed data from the Panel Study of Income Dynamics (PSID) for 2003. The data set is unique, as it tracks families over time (including adult children's families), beginning in 1968. The paper was released at the December 11 seminar, "What Makes an Entrepreneur? Educational Attainment and Other Characteristics of the Self-Employed," which was sponsored by the Hudson Institute Center For Employment Policy in Washington, D.C.

The paper finds, among other things, that:

- Having some college education increases the chances of self-employment by 3.3 percent, a baccalaureate degree by 4.4 percent, and graduate study by 8.3 percent.

- Prior military experience is the strongest predictor of self-employment, increasing the likelihood by 9.4 percent to 11 percent.

- Homeowners are 7 percent more likely to be self-employed; the probability of self-employment increases 2 percent for every \$100,000 increase in mortgage value.

The complete paper is available online at [www.sba.gov/advo/research/rs313tot.pdf](http://www.sba.gov/advo/research/rs313tot.pdf).

### Special Assistant Hired

New to the Office of Advocacy in November is Christine Clough,



special assistant to the chief counsel. A native of Maine, Kristi is an honors graduate of Connecticut College with a double major in economics and international relations. Her study included research into the characteristics of terrorism, U.S. foreign policy in the post-Cold War period, and international trade.

Kristi has interned at the Henry L. Stimson Center and the Center for Strategic and International Studies in Washington, D.C., and at the Maine Development Foundation in Augusta, Maine. You can reach her at (202) 205-7990 or [christine.clough@sba.gov](mailto:christine.clough@sba.gov).

Special Assistant to the Chief Counsel  
Christine Clough.

A graphic with a green dotted background. At the top, a speech bubble says "Watch for your 2007 Economic Census form." Below it, another speech bubble says "It's coming in December." In the center, a hand is shown holding a "2007 Economic Census" form. The form has a barcode and the text "YOUR RESPONSE IS REQUIRED BY LAW". At the bottom, a blue box contains the text "If your business receives a form, fill it out." followed by the website "business.census.gov" and "USCENSUSBUREAU" in all caps.

Watch for  
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Census form.

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[business.census.gov](http://business.census.gov)

USCENSUSBUREAU

## Small Business Economy, from page 1

- A review of small business costs showed the small firm share of payroll declining from 47.9 percent in the late 1980s to 45.1 percent in 2004.

As the economy continued to grow at a healthy pace, total business borrowing increased by one-third, from \$562 billion in 2005 to \$753 billion in 2006.

- Nonfarm, noncorporate business borrowing declined from \$304 billion to \$289 billion over the period.

- The value of initial public offerings increased from the previous year.

Small businesses benefited from the federal acquisition of their goods and services.

- The Small Business Administration worked with the Office of Federal Procurement Policy to improve the quality and transparency of procurement data and to develop the federal procurement environment for small businesses.

- Data from the Federal Procurement Data System–Next Generation indicate that small firms were awarded \$77 billion worth of federal contracts. This amounted to 22.8 percent of all the federal government contracts for which they were eligible to compete (a total of \$340 billion).

Minority-owned businesses have been increasing as a share of the U.S. economy.

- Between 1997 and 2002, African American-owned firms had the highest growth rates in both the number of firms (45.4 percent) and total receipts (24.5 percent).

- Asian-owned firms also saw growth in the number of employer firms and in annual payroll.

- Hispanic or Latino-owned firms constituted the largest minority business community.

The Census Bureau's two new data series, Characteristics of Veteran-Owned Businesses and

Characteristics of Veteran Business Owners, provide insight into businesses owned by veterans and service-disabled veterans.

- Of those responding to the survey, about 812,000 veterans had ownership interests in employer firms, and 2.2 million veterans had ownership interests in non-employer firms.

- Veteran-owned firms are older than U.S. firms overall, but they are similar in receipts and employment size, according to the data.

Social entrepreneurship has emerged at the nexus of the public, private, and nonprofit sectors. Andrew Wolk of Root Cause/M.I.T. describes characteristics of the phenomenon in Chapter 6.

- The chapter profiles numerous programs, including ITN America, City Year, Benetech, KaBOOM!, New Leaders for New Schools, Resolve to Stop the Violence Program, Outside the Classroom, and Triangle Resident Options for Substance Abusers, Inc. These diverse programs illustrate social entrepreneurial approaches to entrenched problems and demonstrate various techniques to leverage public

and private resources and test and develop solutions.

In a given year, about 7 percent of the working age population in the United States is actively engaged in efforts to start a business. In Chapter 7, William Gartner and Jon Liao provide evidence from the Panel Study of Entrepreneurial Dynamics that engaging in business planning can significantly improve an entrepreneur's chances of successfully starting a business.

- Entrepreneurs who completed a business plan were six times more likely to start a business than those who had not done so.

- Entrepreneurs who completed written plans were more likely to engage in more startup activities than those without written plans.

The full report is available at [www.sba.gov/advo/research/sb\\_econ2007.pdf](http://www.sba.gov/advo/research/sb_econ2007.pdf). Printed copies are available from the Office of Advocacy by calling (202) 205-6533.

## Tax Talk Today Gives Small Businesses a Head Start on the Upcoming Filing Season

The Internal Revenue Service is kicking off its new year by sponsoring a *Tax Talk Today* program titled "Getting Ready for the Filing Season 2008." The program takes place on Tuesday, January 8, 2008, at 2 p.m. ET. The program will feature a panel of experts discussing several key topics:

- Business tax return issues for small businesses and self-employed taxpayers,
- Recent tax law changes and updates for the 2007 tax year,
- IRS regulations, business credits, and common errors; and
- Processing issues which affect filing business returns for the 2007 tax year.

*Tax Talk Today* is a free, live, interactive webcast aimed at educating tax professionals and their business clients on contemporary and complex tax issues. Programs are available for webcast for one year after their original date. To access the *Tax Talk Today* webcast at no charge, viewers can register online at [www.TaxTalkToday.tv](http://www.TaxTalkToday.tv).



## Advocacy Watchdog on Alert for Regulatory Proposals



America's Small Business Watchdog provides you with many ways of staying alert to federal regulatory proposals. The Watchdog is a frequent visitor to Advocacy's Regulatory Alerts page, [www.sba.gov/advo/laws/law\\_regalerts.html](http://www.sba.gov/advo/laws/law_regalerts.html). In addition to concise descriptions of new draft rules, the Reg Alerts page also contains the links you need to comment on important proposed federal regulations.

Our Watchdog also stays vigilant by subscribing to Advocacy's four email lists. Visit <http://web.sba.gov/list> to join email lists for:

- ADVOCACY NEWSLETTER
- ADVOCACY PRESS
- ADVOCACY REGULATORY NEWS
- ADVOCACY RESEARCH

Visit [http://www.sba.gov/advo/laws/law\\_regalerts.html](http://www.sba.gov/advo/laws/law_regalerts.html) to comment on important proposed regulations.

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