



GUIDE TO SBA'S DEFINITIONS OF A SMALL BUSINESS

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INTRODUCTION

This guide has been prepared to assist the general public in understanding the U.S. Small Business Administration's (SBA) definitions of a small business. They are termed "size standards," and represent the largest a firm can be and still be considered a small business. This guide provides general information on size standard requirements and also addresses most of the typical concerns of the public regarding the use of size standards. This Guide also contains a [special discussion on the environmental remediation services size standard](#) and its application to Federal procurements and subcontracts.

This guide is advisory only, and does not carry any legal weight. SBA has written it in non-technical language. For further information the user of this guide may contact the sources listed [below](#) or consult the applicable regulations in the [Code of Federal Regulations](#).

The regulations specifying size standards and governing their use are set forth in [Title 13, Code of Federal Regulations, Part 121 \(13 CFR § 121\)](#), [Small Business Size Regulations](#). SBA's size regulations as they pertain to Federal procurement are also found in the [Federal Acquisition Regulation, 48 CFR § 19](#). These regulations do have legal bearing on size determinations and size appeal rulings made by SBA.



BACKGROUND TO SIZE STANDARDS

The [Small Business Act \(Act\)](#) established [SBA](#) to aid, counsel, assist and protect the interests of small business concerns, to preserve free competitive enterprise, to insure that a fair portion of total purchases by the Government are placed with small business enterprises and to maintain and strengthen the overall economy of the Nation. The [Small Business Act](#) also defines a small business concern "to be one that is independently owned and operated and

which is not dominant in its field of operation." Finally, the Act also states that in determining what is a small business, the definition shall vary from industry-to-industry to the extent necessary to properly reflect industry differences.

From the inception of the SBA, the fundamental question arose as to what numerical definition of small business should be used on an industry-by-industry basis to establish eligibility for SBA's programs. This numerical definition is called the "Size Standard" and is almost always stated in either number of **employees** or average annual **receipts**.

These size standards define the maximum size that a firm, including all of its **affiliates**, may be for eligibility as a small business.

Besides establishing eligibility for its own programs, SBA's size standards are used by all Federal agencies for the eligibility of firms to receive Federal contracts specifically designated for small business. Other laws or programs may require the use of the SBA's definition of small business.



DEFINITIONS

This section sets forth certain definitions to clarify the meaning of the terms found in this guide. Definitions are also found in the [regulations](#), usually in more detail.

[Affiliates](#) - The calculation of a firm's size includes the **employees** or receipts of all affiliates. Affiliation with another business concern is based on the power to control, whether exercised or not. Such factors as common ownership, common management and identity of interest (often found in members of the same family), among others, are indicators of affiliation. Power to control exists when a party or parties have 50 percent or more ownership. It may also exist with considerably less than 50 percent ownership by contractual arrangement or when one or more parties own a large share compared to other parties. The affiliated business concerns need not be in the same line of business.

[Annual Receipts](#) - Gross receipts are averaged over a firm's latest 3 completed fiscal years to determine its average annual receipts. "Receipts" means the firm's gross or total income, plus cost of goods sold, as defined by or reported on the firm's Federal Income Tax return. The term does not include, however, net capital gains or losses, nor taxes collected for and remitted to a taxing authority if included in gross or total income. The firm may not deduct income taxes, property taxes, cost of materials or funds paid to subcontractors. Travel, real estate, and advertising agents, and providers of conference management services, may deduct amounts they collect on behalf of another. If a firm has not been in business for 3 years, the average weekly revenue for the number of

weeks the firm has been in business is multiplied by 52 to determine its average annual receipts.

Business Concern - A business concern eligible for assistance as a small business is a business entity organized for profit, with a place of business located in the United States, and which operates primarily within the United States or makes a significant contribution to the U.S. economy through payment of taxes or use of American products, materials, or labor.

Employees - The number of employees of a firm is its average number of persons employed for each pay period over the firm's latest 12 months. Any person on the payroll must be included as one employee regardless of hours worked or temporary status. The number of employees of a firm in business under 12 months is based on the average for each pay period it has been in business.

8(a) Program - An SBA program for small firms owned by **socially and economically disadvantaged persons**. Firms admitted to the program can receive Federal contracts designated for 8(a) Program participants, as well as **management and technical assistance**.

Industry - Concerns primarily engaged in the same kind of economic activity are classified in the same industry regardless of their types of ownership (such as sole proprietorship, partnership or corporation). The U.S. Office of Management and Budget (OMB) classifies approximately 1,000 activities as industries under the Standard Industrial Classification (SIC) System. For each industry, except those in the industry division of public administration, SBA has established a size standard. Industries are described in detail in the **Standard Industrial Classification Manual** which can be found in many libraries or purchased at the Government Printing Office bookstores. It can be ordered from the U.S. Government Printing Office, Superintendent of Documents, PO Box 371954, Pittsburgh, PA 15250-7954.

Nonmanufacturer - For purposes of Federal government contracts, a firm that supplies a product it did not manufacture is termed a nonmanufacturer. To qualify for Federal government contracting, a nonmanufacturer must have 500 or fewer **employees**, be primarily in the wholesale or retail trade, and supply the product of a U.S. small manufacturer. This requirement is called the "nonmanufacturer rule." This rule does not apply to supply contracts of \$25,000 or less that are processed under **Simplified Acquisition Procedures**. The requirement may also be waived through formal procedure by the Associate Administrator for Government Contracting if there is no small manufacturer in the Federal market for a class of products.

Not Dominant - A concern is not dominant in its field of operation when it does not exercise a controlling or major influence on an industry. As part of its review of a size standard, SBA investigates if a concern at or below a particular standard would be dominant in the industry, on a national basis. Thus, a

concern at or below the size standard is presumed not to be dominant in its field of operation.

Set-Aside Contract - A "set-aside" is a Federal contract designated for small business bidding only.



SUMMARY OF SIZE STANDARDS

BY INDUSTRY DIVISION

Size standards define the maximum size that a firm, including all of its **affiliates**, may be for eligibility as a small business concern for most SBA programs. The SBA has established two widely used size standards - 500 **employees** for most manufacturing and mining industries and \$5.0 million in average annual receipts for most nonmanufacturing industries. However, many exceptions exist. For the applicable size standard, see the **SBA's Small Business Size Regulations, 13 CFR § 121** or the **Table of Small Business Size Standards** matched to SIC codes for which SBA has established standards. (SBA periodically changes a size standard for an industry. The process for **changing a size** standard is discussed later in this guide.)

The general range of size standards by industry division follows:

Construction - General building and heavy construction contractors have a size standard of \$17 million in average annual receipts. Special trade construction contractors have a size standard of \$7 million.

Manufacturing - For approximately 75 percent of the manufacturing industries, the size standard is 500 **employees**. A small number have a 1,500-employee size standard and the balance have a size standard of either 750 or 1,000 **employees**.

Mining - All mining industries, except mining services, have a size standard of 500 **employees**.

Retail Trade - Most retail trade industries have a size standard of \$5 million in average annual receipts. A few, such as grocery stores, department stores, motor vehicle dealers and electrical appliance dealers, have higher size standards. None are above \$21 million.

Services - For the service industries, the most common size standard is \$5 million in average annual receipts. Computer programming, data processing and systems design have a size standard of \$18 million. Engineering and architectural services have different size standards, as do a few other service industries. The highest annual receipts size standard in any service industry is

\$21.5 million. Research and development and environmental remediation services are the only service industries with a size standard stated in number of **employees**. (See [below](#) for additional information on the size standard that applies to contracts for environmental remediation.)

Wholesale Trade - For all wholesale trade industries, a size standard of 100 **employees** is applicable for loans and other financial programs. When acting as a dealer on Federal contracts set aside for small business or issued under the [8 \(a\) program](#), the size standard is 500 **employees** and the firm must deliver the product of a small domestic manufacturer, as set forth in SBA's [nonmanufacturer rule](#), unless waived by the SBA for a particular class of product. However, for those procurements made under the [Simplified Acquisition Procedures of the FAR](#) and where the purchase does not exceed \$25,000, the nonmanufacturer may deliver the goods of any domestic manufacturer.

Other Industries - Other industry divisions include: Agriculture; [transportation, communications, electric, gas, and sanitary services](#); and [finance, insurance and real estate](#). Because of wide variation in the industry structure of the industries in these divisions, there is no common pattern of size standards. For specific size standards refer to the size regulations in [13 CFR § 121.201](#) or the [table of small business size standards](#).



USE OF SIZE STANDARDS FOR LOANS

AND OTHER FINANCIAL ASSISTANCE PROGRAMS

For SBA business loans the concern must meet the size standard for the industry in which it, including its **affiliates**, is primarily engaged as well as the size standard for the primary industry of the applicant concern, not including its **affiliates**. The SBA determines whether the loan applicant is an eligible small business.

Applicants for financial assistance under the [Small Business Investment Company \(SBIC\)](#) and [Development Company \(504\) Programs](#), must meet the size standard for business loans (see above), or as an alternative, not exceed the following criteria:

	SBIC	504
Tangible Net Worth	\$18 million	\$6 million
	<i>and</i>	<i>and</i>
Average (2 year) Net Income (after Federal Income Taxes, excluding	\$6 million	\$2 million

any carry-over losses)

For [Surety Bond Guaranty Assistance](#), the concern, including its [affiliates](#), may not have receipts in excess of [\\$5 million for construction and service contracts](#). For other concerns, including manufacturing, [the size standard of the applicant's primary industry](#) applies (including [affiliates](#)).



USE OF SIZE STANDARDS FOR SBA's SMALL

BUSINESS INNOVATION RESEARCH PROGRAM

The [Small Business Innovation Research \(SBIR\)](#) Program provides small concerns a competitive opportunity to propose innovative concepts to meet the research and development needs of the Federal government. To be eligible, a business concern must be at least 51 percent owned and controlled by U.S. citizens or lawfully admitted permanent resident aliens, and, including [affiliates](#), not exceed 500 [employees](#).



USE OF SIZE STANDARDS FOR GOVERNMENT

PROCUREMENT

The contracting officer will designate, as part of the solicitation, the applicable size standard for the government procurement. The size standard is based on the industry classification of the goods or services being procured. The [proper SIC code](#) is that which best describes the principal purpose of the procurement, giving primary consideration to the industry description in the [Standard Industrial Classification \(SIC\) Manual](#). When more than one SIC is involved in a contract, consideration is to be given to the function of the goods and services being purchased and the relative value and importance of each. (See the discussion on the designation of the [environmental remediation services](#) size standard to Federal procurements and subcontracts.)

For the purpose of bidding on Federal contracts that are [set aside](#) for small business, the concern must [self-certify](#) to be a small business under the appropriate size standard set forth in the solicitation. The size of the concern at the time of [self-certification](#) prevails for that contract. A concern may grow above the size standard before or after award without loss of eligibility to perform on that contract.

In the [8\(a\) Program](#), the disadvantaged concern must meet the size standard for its primary industry to be admitted to the program. Then it must meet the size standard for the SIC of each individual contract it receives.

If a procurement calls for two or more items with different size standards and the offeror must bid on all end items, it may qualify as a small business if it meets the common size standard for those items accounting for the greatest percentage of total contract value. If the offeror is not required to bid on all items, it may bid only on items for which it meets the size standard.

To be awarded a Government small business [set-aside](#) or [8\(a\)](#) contract, the concern must perform at least a given percentage of the contract. This provision limits the amount of subcontracting a concern may enter into with other firms when performing these types of contracts. The provisions are as follow:

Construction - For general and heavy construction contractors, at least 15 percent of the cost of the contract, not including the cost of materials, must be performed by the prime contractor with its own [employees](#). For special trade construction, such as plumbing, electrical or tile work, this requirement is 25 percent.

Manufacturing - At least 50 percent of the cost of manufacturing, not including the cost of materials, must be done by the prime contractor.

Services - At least 50 percent of the contract cost for personnel must be performed by the prime contractor's own [employees](#).

See [13 CFR § 125.6](#), Prime contractor performance requirements (limitations on subcontracting) for more information.



REVIEW AND REVISION OF SIZE STANDARDS

The Administrator of the SBA has the responsibility for establishing small business size standards. Requests to change existing or to establish a new size standard should be addressed to the [Assistant Administrator for Size Standards](#) in Washington, DC. The Office of Size Standards has the responsibility of reviewing industry and other relevant information and making recommendations to the Administrator. Important factors are the structure of the industry and the affect of the size standard on Federal procurement. Changes to size standards must follow the rulemaking procedures of the Administrative Procedure Act. A proposed rule changing a size standard is first published in the [Federal Register](#) allowing for public comment. Documentation

establishing that a significant problem exists requiring a revision of a size standard, plus an economic analysis of the change, must be included in a proposed rule. Comments from the public, plus any other new information, are reviewed and evaluated before a final rule is promulgated which establishes a new size standard.



SIZE PROTESTS AND SIC APPEALS

Any interested party to a procurement may protest the [self-certification](#) of a bidder as a small business. The [protest must follow certain procedures](#) and shall include the specific reason(s) why the protester believes the challenged firm is not a small business. A protest must be sent to the contracting officer, who transmits it to an SBA Office of Government Contracting Area Office for a size determination of the challenged firm. Procedures for protest and appeal of size determinations are detailed in [13 CFR § 121.1001 thru § 121.1010](#). Size determination and appeal procedures for SBA's financial assistance programs are found at the same citation.

An interested party may [appeal an SIC designation](#) made by the contracting officer on a specific procurement that has been set aside for small business. The most likely reason for such an appeal would be to correct an SIC classification to one with a different size standard. These appeals are sent directly to SBA's [Office of Hearings and Appeals \(OHA\)](#) and must follow the [required procedures](#). (Different rules apply to SIC designations of 8(a) contracts.)

There is no right of appeal of a formal size determination. However, OHA may, at its own discretion, accept a petition to review a size determination. Further, OHA has exclusive jurisdiction to determine appeals of SIC code determinations.

Parties interested in making a protest of appeal should avail themselves of the procedures governing the time limitations for appeals in effect at that time. These procedures are contained in [13 CFR § 121.1001 thru § 121.1103](#), and [13 CFR § 134](#) (Office of Hearings and Appeals).



ADVISORY NOTICE

As stated [previously](#), this guidance paper is advisory only and summarizes in simplified form the most basic provisions of the complete regulations found

in [13 CFR § 121](#). Part 121 regulations are legally controlling.



FREQUENTLY ASKED QUESTIONS AND THEIR ANSWERS

Q. Does SBA keep lists of eligible small businesses or issue certificates for firms to qualify as small businesses?

A. SBA does not now issue certificates or maintain lists establishing the eligibility of firms as small businesses. For Federal procurements, the firm [self-certifies](#) its small business status as of the time its bid is submitted, based on the size standard specified in the solicitation.

Q. My firm desires to team with another firm to bid on a Government contract. We both are below the size standard individually, but not when combined. Are we eligible to bid as a small business?

A. Only for certain procurements could this joint venture qualify as a small business. In a joint venture both firms share, in some proportion, the responsibility and the profits or loss on a contract. They are considered affiliated for the purpose of that contract. Normally, the revenues or the employees of both firms are added together to determine the size of the joint venture. However, on certain large Federal procurements, a joint venture comprised of only small businesses would qualify as a small business joint venture. This is limited to procurements that exceed \$10 million in value that are classified with an SIC industry having an employee-based size standard, or that exceeds one-half of the size standard for procurements classified with an SIC industry having a revenue-based size standard. Also, certain 8(a) firms may joint venture with other firms without being considered affiliates (see 13 CFR 121.103 and 124.513 for more information).

Q. How can I restructure my firm or firms so I still maintain ownership, but become eligible as a small business? I am not now a small business.

A. Restructuring your firm for the primary purpose of becoming small under a size standard would not change your size status.

Q. Another Federal agency wishes to grant regulatory relief for small business entities. Must it use SBA's size standards to define small business?

A. The Regulatory Flexibility Act defines a small business according to SBA's definition; however, a different size standard may be adopted. Generally, Federal agencies may use the SBA's size standards. If some other small

business definition is more appropriate to their needs, that agency may consult with SBA's Office of Advocacy to find a more suitable small business definition.

Q. Can a Federal agency making a small business set-aside procurement use, at its discretion, a size standard other than what SBA has designated?

A. No. Under law, an agency must use the SBA's size standards on small business [set-aside procurements](#). Unlike the use of size standards for regulatory analyses discussed in the previous question, an agency has no authority to establish different size standards from the SBA's size standards on [set-aside procurements](#).

Q. My business operates under a franchise. Am I [affiliated](#) with the franchisor or with similar franchisees?

A. A franchisee operating under its own ownership, own management, and for its own profit (or loss) would generally not be [affiliated](#) with the franchisor or other franchisees through the franchise arrangements, except under unusual circumstance.

Q. A solicitation was issued under an [SIC](#) code with a \$5 million size standard. In my opinion a different SIC with a \$6 million size standard should have been used. How do I get this corrected?

A. You have the right to [appeal the contracting officer's SIC designation to SBA's Office of Hearings and Appeals](#) usually no later than 10 working days before bid opening or deadline for submitting proposal. (In some cases, appeals are accepted not later than five working days from bid opening.) Specific procedures are contained in [13 CFR § 121](#). Informal discussions with the contracting officer to change the designation voluntarily may be an alternative solution.

Q. I am convinced a firm which bid in competition with me on a Federal [set-aside procurement](#) is not a small business. How can I prevent it from getting the award?

If you are a small business bidder, you are an interested party in this procurement and you may challenge your competitor's small business [self-certification](#). Notify the contracting officer of the matter according to the procedures set forth in [13 CFR § 121.1101-1103](#). Your challenge must be timely and set forth specific alleged grounds. The contracting officer is required to forward the challenge to SBA for a size determination.



WHERE TO GET ADDITIONAL INFORMATION

Small business regulations are contained in [13 CFR § 121](#) and the [Federal Acquisition Regulation 48 CFR § 19](#).

For the applicable size standard and for size standard questions, you may contact the SBA located in one of the Area Offices of [the Office of Government Contracting](#), or in Washington, DC. The full [table of small business size standards](#) matched to [Standard Industrial Classification \(SIC\) codes](#) is available on the [SBA's Internet Web Site](#) at <http://www.sba.gov/regulations/siccodes/>. SBA's bulletin board can be reached at 1 (800) 697-4636 or 1 (900) 463-4636; or in the Washington, DC, metropolitan area at (202) 401-9600.

Each of the six area offices of the SBA's Office of Government Contracting have an employee designated as a Size Specialist. Their addresses and telephone numbers follow:

<p>I. Office of Government Contracting</p> <p>Boston Area Office</p> <p>U.S. Small Business Administration</p> <p>10 Causeway Street, Room 265</p> <p>Boston, MA 02222-1093</p> <p>Tel: (617) 565-5622</p>	<p>IV. Office of Government Contracting</p> <p>Chicago Area Office</p> <p>U.S. Small Business Administration</p> <p>500 West Madison Street, Suite 1250</p> <p>Chicago, IL 60601-2511</p> <p>Tel: (312) 353-7381</p>
<p>II. Office of Government Contracting</p> <p>Philadelphia Area Office</p> <p>U.S. Small Business Administration</p> <p>475 Allendale Road, Suite 201</p> <p>King of Prussia, PA 19406</p> <p>Tel: (610) 962-3706</p>	<p>V. Office Government Contracting</p> <p>Dallas Area Office</p> <p>U.S. Small Business Administration</p> <p>4300 Amon Carter Boulevard, Suite 116</p> <p>Fort Worth, TX 76155</p> <p>Tel: (817) 334-5902</p>
<p>III. Office of Government Contracting</p> <p>Atlanta Area Office</p> <p>U.S. Small Business Administration</p> <p>1720 Peachtree Road, NW</p>	<p>VI. Office of Government Contracting</p> <p>San Francisco Area Office</p> <p>U.S. Small Business Administration</p>

Suite 318 North Atlanta, GA 30309 Tel: (404) 347-4483	455 Market Street, 6 th Floor San Francisco, CA 94105 Tel: (415) 744-8429
IN WASHINGTON, TWO OFFICES MAY BE CONTACTED	
1) Office of Size Standards U.S. Small Business Administration 409 3 rd Street, SW Washington, DC 20416 Tel: (202) 205-6618	2) Office of Industrial Assistance U.S. Small Business Administration 409 3 rd Street, SW Washington, DC 20416 Tel: (202) 205-6475



Application of the Environmental Remediation

Services Size Standard To Federal

Procurements and Subcontracts

The U.S. Small Business Administration (SBA) in 1994 established a small business size standard of 500 **employees** for the activity of environmental remediation services. The purpose of this review is to address procurement-related questions the SBA has received regarding the use of this size standard by businesses and government in determining (1) the qualification of small business status, and (2) which procurements can properly be assigned this new size standard. This review clarifies these two areas, and provides examples of selecting the size standard for various types of procurements. While it focuses primarily on decisions related to the environmental remediation service size standard, the decision process explained here also has general applicability to procurements for all other types of goods and services. This review is focused, however, on the environmental remediation service size standard because of the intense public interest in this industry.



Qualifying as a Small Business

The only requirement for qualifying as a small business for any procurement is that a firm's size, including its **affiliates**, does not exceed the numerical size standard designated for the specific procurement. Within a procurement solicitation, the applicable **Standard Industrial Classification code** and its corresponding size standard will be listed in the solicitation. For example, if a firm's average annual receipts are \$4.0 million, it can **self-certify** as a small business for a procurement having a \$5.0 million size standard, but it cannot **self-certify** as a small business for a procurement which has a \$2.5 million size standard.

The new size standard for environmental remediation services is 500 **employees**. For a firm to **self-certify** as a small business on a solicitation which contains this new size standard (whether a prime contract or a subcontract), the firm, including its **affiliates**, cannot exceed 500 **employees**. Number of **employees** of a firm means the average employment of the firm based on the employment during each of the pay periods for the preceding twelve months. Each employee on the payroll, whether a full-time or part-time employee, is counted as one employee. If a group of firms form a joint venture to bid on a federal procurement, the **employees** of all firms involved in the joint venture are totaled over the pay periods of the preceding twelve months to determine its average employment.

Footnote 13 accompanying the environmental remediation services size standard states that, for this size standard to apply, activities associated with three or more industries must be present, and that no one industry can represent 50 percent or more of the value of a contract. A frequently asked question has been: Does a firm have to be performing activities in three or more industries to **self-certify** as a small business on a procurement for environmental remediation services? The answer is no.

The only purpose of the "three industry requirement" is to determine if the environmental remediation services size standard can be chosen for a procurement. As the next section discusses, if the procurement is for environmental remediation services and it meets the three industry requirement, then the size standard for the procurement is 500 **employees**. To reiterate the earlier point, size of the firm, including **affiliates**, is the only factor used to determine if a firm is a small business for purposes of a federal government procurement. It does not matter how many or what types of industries in which a firm operates, or the distribution of a firm's revenues across different industry activities.

This point raises two related areas of uncertainty concerning small business status. First, many firms believe that they must be certified as a small business under a **Standard Industrial Classification code** by the SBA or by another federal agency. No pre-certification requirement exists, except for SBA's Minority Enterprise Development program (the **8(a) Program**). A firm does not have to identify itself as an "8744 firm" to compete as a small business on an

environmental remediation services procurement. Small business eligibility for procurement purposes is "procurement-specific." That is, for each and every procurement, a firm will [self-certify](#) as part of its bid proposal that it is a small business under the applicable size standard designated for that specific procurement. To guard against false certifications of small business status, the SBA permits [size protests](#) to challenge the small business certification of a prospective awardee only.

Second, SIC 8744 does not cover environmental remediation services. This SIC code defines an industry titled "[Facilities Support Management Services](#)." This industry consists of establishments which provide a range of services in support of the operations of another establishment. Within this SIC code, the SBA has established size standards for two additional components - [Base Maintenance](#), an activity listed in the SIC definition, and [Environmental Remediation Services](#). The following table lists the size standards established for each of these components:

SIC	INDUSTRY	SIZE STANDARD
8744	Facilities Management Services	\$5.0 million
8744	>Base Maintenance	\$20.0 million
8744	Environmental Remediation Services	500 employees

In lieu of an SIC code for environmentally related activities, the SBA placed environmental remediation services under SIC 8744, which covers establishments engaged in multi-disciplinary activities. The SBA's component of environmental remediation services is not an enumerated activity within any industry of the [Standard Industrial Classification](#). Therefore, it should not be used for any purpose other than selecting the applicable SBA size standard to determine a firm's eligibility as a small business.

Other questions about small business eligibility concern the application of [subcontracting limitations](#) on small business set-asides, small disadvantaged business set-asides and 8(a) procurements designated as environmental remediation services under SIC 8744. For these types of procurements, the prime contractor must perform at least 50 percent of the costs of personnel with its own [employees](#). The subcontracting limitations specified for construction are not applicable to an environmental remediation services procurement under SIC 8744. Activities under SIC 8744 are considered services, not construction.



Classification of Federal

Procurements and Subcontracts

When the federal government issues a solicitation for the purchase of goods or services, it assigns to the procurement a [Standard Industrial Classification \(SIC\) code](#), a four-digit numerical code associated with an industry, developed by the Office of Management and Budget. The contracting officer for the solicitation is responsible for assigning the SIC code which most accurately reflects the principal purpose of the procurement, in light of the scope of the work of that procurement. The SIC code then identifies the size standard for the procurement. The SBA has developed a [size standard for each SIC code](#). For a few industries, however, the SBA has developed separate size standards for subcategories of SIC codes.

These same procedures apply to subcontracts issued by a contractor performing a prime contract for the federal government. Each subcontract will have its own SIC code and size standard as determined by the work statement of the subcontract. However, for [subcontracts of \\$10,000 or less](#), a size standard of 500 employees shall apply regardless of the industry classification of the subcontract. The SIC code and associated size standard for the subcontract and the prime contract would not necessarily be the same. Instead, the nature of work associated with the subcontract and with the prime contract would be considered separately, to determine the applicable SIC code and associated size standard for each. For example, a procurement for the construction of an office building falls under SIC 1542, which has a size standard of \$17 million. If the prime contractor issued a subcontract for plumbing installation, the SIC code for the plumbing subcontract is SIC 1711 with a size standard of \$7 million - not the SIC code and size standard of the prime contract.

[Footnote 13](#) to the environmental remediation services size standard imposes certain requirements on a procurement for this size standard to be designated for the procurement. It states:

That the general purpose of the procurement is to restore a contaminated environment.

That the procurement is composed of activities in three or more separate industries identified with separate Standard Industrial Classification four-digit industry codes or in some instances (*e.g.*, engineering), smaller sub-components of four-digit industry groups with separate, distinct size standards.

These activities may include, but are not limited to, separate activities in industries such as: Heavy Construction; Special Trade Construction; Engineering Services; Architectural Services; Management Services; Refuse Systems; Sanitary Services, Not Elsewhere Classified; Local Trucking Without Storage; Testing Laboratories; and Commercial Physical and Biological Research.

If any activity in the procurement can be identified with a separate four-digit

industry code or component of a code with a separate, distinct size standard and that industry accounts for 50 percent or more of the value of the entire procurement, then the proper size standard shall be the one for that particular industry, and not the Environmental Remediation Services size standard.

For example, if a procurement to restore a contaminated environment involves engineering services, construction, testing, and trucking, and no one of those industry activities is anticipated to constitute 50 percent or more of the work, the procurement is properly classified under the new environmental remediation services component of SIC 8744, and the 500 employee size standard then applies. If, however, the procurement involved only construction and engineering, it could not be classified under the new environmental remediation services size standard. In this instance, it would be classified in either construction or engineering services, depending upon which industry activity constituted the greater proportion of the work to be performed under the procurement. Even if four industries were involved, and if one industry, such as construction, accounted for 50 percent or more of the work to be performed, it could not be classified under the SIC 8744 component of environmental remediation services. It would properly be classified under an SIC code for construction.

In evaluating the industry activities of a procurement to restore an environment, the contracting officer needs to match-up each activity with an industry. For example, the remedial design activity of a procurement falls under SIC 8711, Engineering Services. This would then constitute one industry activity. Tank removal would be a second activity falling under a different industry, SIC 1629, Heavy Construction, Not Elsewhere Classified. However, if two or more activities were associated with the same industry or a component of an industry with its own distinct size standard, only one industry activity can be counted. For example, the two activities of (1) soil testing and (2) water testing are both covered under SIC 8734, Testing Laboratories. Accordingly, only one industry activity could be counted towards meeting the three industry requirement of the environmental remediation services size standard.

Once this is completed, the contracting officer then must assess what percentage of work will be associated with each identified industry. By its nature, this assessment will be based, in the best judgment of the contracting officer, on the anticipated distribution of work to be performed on a procurement. This cannot be an arbitrary distribution of work, but must have a reasonable basis to support the estimated percentages. As discussed above, if activities in three or more industries are present, and no one industry comprises 50 percent or more of the anticipated value of the procurement, then environmental remediation services is an appropriate SIC code designation.

The following questions should be asked when considering whether or not to assign the environmental remediation services size standard to a procurement:

1. What is the purpose of the procurement? Is the procurement for environmental remediation or for another purpose?
2. What activities will be performed?
3. What industries are associated with these activities? Are there three or more industries comprising the procurement?
4. What is the proportion of work for each industry activity? Does one industry activity represent 50 percent or more of the procurement?

The answers to these questions will help ensure the proper application of the environmental remediation services size standard to procurements.



Examples of Classifying Government Procurements

The following five examples are presented to help clarify the application of the environmental remediation services size standard to various procurements. The examples presume that the procurements are associated with an environmental remediation project. A discussion accompanies each example to explain the selection of the SIC code for a procurement based on the activities and industries of the procurement and the distribution of work by industry. For subcontracts, it is assumed that the value will exceed \$10,000.

EXAMPLE 1

PRIME SIC - Other Than Environmental Size Standard

SUBCONTRACT - No Subcontracting Performed on the Contract

ACTIVITY	INDUSTRY	SIC	PERCENT
Building Removal	Wrecking/Demolition Work	1795	55
Trash Removal	Refuse Systems	4953	10
Prelim. Assessment	Engineering Services	8711	20
Soil Testing	Testing Laboratories	8734	15

Here, the prime contract would be classified under SIC 1795 with a size standard of \$7.0 million rather than the environmental remediation size standard. Although the contract consists of activities associated with four industries, wrecking and demolition constitute more than 50 percent of the value of the contract. Accordingly, this procurement is classified under the

industry SIC code that accounts for the majority of the work.

EXAMPLE 2

PRIME SIC - The Environmental Size Standard

SUBCONTRACT - Other Than The Environmental Size Standard

ACTIVITY	INDUSTRY	SIC	PERCENT
PRIME CONTRACT:			
Earth Moving	Heavy Construction, NEC	1629	40
Remedial Design	Engineering Services	8711	25
Oil Spill Removal	Sanitary Services, NEC	4959	20
Rubbish Removal	Local Trucking, Without Storage	4212	15
SUBCONTRACT:			
Rubbish Removal	Local Trucking, Without Storage	4212	100
SUBCONTRACT:			
Oil Spill Removal	Sanitary Services, NEC	4959	100

In this example, the prime contract would be identified with SIC 8744, Environmental Remediation Services, with a size standard of 500 **employees**. Here, all the requirements associated with the Environmental Remediation Services size standard apply to this procurement: (1) the overall purpose of the contract is for environmental remediation services, (2) there are three or more industries associated with the activities of the contract, and (3) no single industry accounts for 50 percent or more of the contract's value.

This firm has chosen to issue a subcontract for all or part of its rubbish removal activities to another firm and also a subcontract for its oil spill removal activities to a second, unrelated firm. The SIC code and size standard for the two subcontracts would be determined separately based on the work to be performed on each subcontract. Accordingly, the relevant size standard for the rubbish removal subcontract would be the size standard established for SIC 4212 - \$6 million. The size standard of \$5 million for SIC 4959 would be applicable for the oil spill removal subcontract. The SIC code and size standard for the subcontract is based on the scope of work of the subcontract - not the SIC code and size standard of the prime contract!

EXAMPLE 3**PRIME SIC - Other Than Environmental Size Standard****SUBCONTRACT - No Subcontracting Performed On The Contract**

ACTIVITY	INDUSTRY	SIC	PERCENT
Prelim. Assessment	Engineering Services	8711	30
Feasibility Study	Engineering Services	8711	30
Soil Testing	Testing Laboratories	8711	40

In this example, the contract would be identified with SIC 8711, Engineering Services, with a size standard of \$2.5 million. This contract consists of three activities; however, two of the three activities, preliminary assessments and feasibility studies, are part of the same industry, engineering services. Upon combining these two activities, the engineering effort on the contract represents 60 percent of the value of the contract.

EXAMPLE 4**PRIME SIC - The Environmental Size Standard****SUBCONTRACT - The Environmental Size Standard**

ACTIVITY	INDUSTRY	SIC	PERCENT
PRIME CONTRACT:			
Site Restoration	Heavy Construction, NEC	1629	30
Trash Disposal	Refuse Systems Management	4953	20
Impact Study	Consulting	8742	10
Soil Testing	Testing Laboratories	8734	05
Building Removal	Wrecking/Demolition Work	1975	10
Prel. Assessment	Engineering Services	8711	10
Dirt Hauling	Trucking Without Storage	4212	15
SUBCONTRACT:			
Building Removal	Wrecking/Demolition Work	1795	20

Trash Disposal	Refuse Systems	4953	45
Dirt Hauling	Trucking Without Storage	4212	35

In this example, the prime contract would be identified with SIC 8744, Environmental Remediation Services, with a size standard of 500 **employees**. Here, all the requirements associated with the Environmental Remediation Services size standard apply to this procurement: (1) the overall purpose of the contract is environmental remediation services, (2) there are three or more industries associated with the activities of the contract, and (3) no single industry equals or exceeds 50 percent of the contract's value. This firm has chosen to subcontract a significant part of its trucking, demolition, and remediation activities to another concern. Under this example, the subcontract would also be identified with SIC 8744, Environmental Remediation Services, with a size standard of 500 **employees**. This decision is based on the same three requirements stated above. Unlike the second example, this single subcontract is structured to consist of multiple industry activities.

EXAMPLE 5

PRIME SIC - Other Than The Environmental Size Standard

SUBCONTRACT - The Environmental Size Standard

ACTIVITY	INDUSTRY	SIC	PERCENT
PRIME CONTRACT:			
Remedial Design	Engineering Services	8711	55
Asbestos Removal	Special Trade Construction, Heavy	1799	05
Earth Moving	Heavy Construction, NEC	1629	15
Trash Disposal	Refuse Systems	4953	10
Research	Commercial Physical Research	8731	10
Water Testing	Testing Laboratories	8734	05
SUBCONTRACT:			
Remedial Design	Engineering Services	8711	40
Research	Commercial Physical Research	8731	40

Water Testing	Testing Laboratories	8734	20
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Here, the prime contract would be identified with SIC 8711, Engineering Services, with a size standard of \$2.5 million since engineering services constitutes more than 50 percent of the value of the contract. This firm, however, has chosen to subcontract some of its engineering and its research and testing activities to another concern under a single subcontract. The subcontract would be identified with SIC 8744, Environmental Remediation Services, with a size standard of 500 **employees**. This decision is based on the fact that (1) the overall purpose of this subcontract is environmental remediation services, (2) there are multiple activities associated with three or more different industries, and (3) no single industry equals or exceeds 50 percent of the contract's value.

This example illustrates an unusual situation in which the subcontract fulfills the requirements of the Environmental Remediation Services size standard, but the prime contract does not. Although the prime contract and subcontract are generally similar, the different distributions of work result in different size standards.



Conclusion

The preceding discussion answers many of the questions that have arisen concerning the application of the Environmental Remediation Services size standard to small businesses and to federal procurements and related subcontracts. In every case, dealing with environmental remediation work, the nature of work within the contract or subcontract should be reviewed closely before selecting a size standard. For additional information or clarification contact SBA's [Office of Size Standards](#).



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