

Small Business Effective Federal Income Tax Rates Calculated

by John McDowell, Press Secretary

New research from the Office of Advocacy shows that the average effective federal income tax rate faced by small businesses varies by the legal form of organization. Average rates range from 13.3 percent for sole proprietorships to 26.9 percent for S corporations.

Average Effective Federal Income Tax Rates by Legal Form of Organization, 2004

Entity Type	Rate (%)
Small Nonfarm Sole Proprietorship	13.3
Small Partnership	23.6
Small S Corporation	26.9
Small C Corporation*	17.5
All Small Business	19.8

Source: Quantria Strategies LLC

*The C corporation tax rate is not directly comparable to other rates.

(The effective tax rate is the actual amount of taxes paid by a firm as a percent of its net income.)

Exceptions to the normal statutory tax rates, such as deductions, exclusions, and credits, have the effect of lowering the tax rates paid by firms. The result is a difference between the statutory rate and the actual or effective rate paid by the business or its owners.

Overall, small businesses of all types pay an estimated effective tax rate of 19.8 percent. Sole proprietorships have a rate of 13.3 percent; small partnerships, 23.6 percent; and small S corporations, 26.9 percent. While not directly comparable, the rate for small C corporations is 17.5 percent.

The progressive nature of the tax code also affects effective rate calculations, as firms with less income face a lower statutory rate. Nearly 60 percent of small sole proprietor-

ships have a net income of less than \$10,000, while only 3.1 percent have a net income of at least \$100,000. On the other hand, more than 18 percent of small S corporations have a net income of at least \$100,000.

Quantria Strategies produced *Effective Federal Income Tax Rates Faced by Small Business in the United States* with funding from Advocacy. The authors primarily used data from the IRS Individual Statistics of Income Public Use File, 2004, as the basis for the study. The authors defined "small business" as a firm with less than \$10 million in gross receipts.

For a copy of the report, visit Advocacy's website at www.sba.gov/advo/research/rs343tot.pdf.

Home Office Deduction Act Proposed

by LaVita LeGrys, Public Liaison

On March 16, Congressman John McHugh (R-NY) and Congressman Kurt Schrader (D-OR) introduced bipartisan legislation to make it easier for home-based business owners to deduct office expenses. The Home Office Deduction Simplification Act (H.R. 1509) would allow eligible individuals to take a standard deduction of \$1,500 instead of itemizing their return. In addition, the deduction would be indexed to the cost of inflation.

The small business community has frequently appealed to the Office of Advocacy for assistance in seeking relief from burdensome tax

requirements, which cost the smallest businesses 67 percent more per employee than their larger competitors. Currently, small businesses are not able to take full advantage of the home office deduction because of its complexity.

Advocacy's Acting Chief Counsel Shawne McGibbon commended the bill's sponsors in a letter dated March 19. "[H.R. 1509] will fix this problem," she wrote. "Moreover, the legislation is consistent with the President's recent initiative to provide more working capital to small businesses."

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Research Notes

Balancing Work and Family: How Self-employed Women Spend Their Time

by Kathryn Tobias, Senior Editor

Over the past several decades, thousands of women have entered the U.S. labor force, many of them in home-based businesses. And with more job losses as the economy slips into recession, more women may be looking for ways to balance family life and financial necessity.

Why do women actually enter self-employment? Are their motivations different from those of men, and of women wage-and-salary workers? How does their use of time reflect their priorities and motivations? Tami Gurley-Calvez, Katherine Harper, and Amelia Biehl set out to examine data about self-employed women's use of their time, in comparison with men and with women wage-and-salary workers. The researchers' results appear in a new Advocacy report, *Self-employed Women and Time Use*. It offers evidence of important differences which suggest women are more likely to factor in the need to balance work and family life, while men may make decisions based primarily on earnings potential.

- Self-employed women work about 1.5 hours less per day in their self-employment work or about 10 fewer hours per week than self-employed men. These women also spend about 3.5 more hours in household activities per week than women employed in wage-and-salary work and six more hours than men.

- In general, women spend more time on primary child care activities, and self-employed women in particular. They spend about three more hours per week on primary child care than self-employed men and two more hours than women wage-and-salary workers.

- Differences between self-employed women and men are

especially significant in secondary child care, where a parent is at the same location as the child but is primarily engaged in another activity (such as work or household activities). Self-employed women spend 6.4 more hours per week than self-employed men on secondary child care.

The results may suggest that policies that enhance work-life balance, offset racial disparities in self-employment, and increase human capital through education might encourage more women to enter self-employment as a way of balancing family life and the need or desire to earn a living.

The full report is available on the Office of Advocacy website

Mercatus Fellow Anna Rittgers

by Rebecca Krafft, Editor

The Office of Advocacy's newest Mercatus Fellow hails from South Carolina and has an extensive background in international journalism. Anna Rittgers is a second-year law student at George Mason University Law School. Prior to entering law school, she worked for the *The Times of London's* Washington bureau and was a contributor to "Across the Pond," its blog on the U.S. presidential election. At Advocacy, Rittgers is assisting staff attorneys in their analysis of regulatory proposals. So far, she has worked on three proposals from the Environmental Protection Agency and one from the U.S. Department of Agriculture.

The Mercatus Regulatory Studies Fellowship is the result of a partnership between the Mercatus Center at George Mason University

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and Advocacy. The program offers second- and third-year law students who are interested in regulatory policy and small business issues the opportunity to work at Advocacy.



Message from the Acting Chief Counsel

The Office of Advocacy—Speaking Out for Small Business

by Shawne McGibbon, Acting Chief Counsel for Advocacy

It has now been almost six months since I took over as acting chief counsel for advocacy. In that time, I have continued the Office of Advocacy's mission of helping small businesses, small nonprofits, and small jurisdictions cut through the complex federal regulatory landscape. And, I have great respect for the work that Advocacy's staff does on your behalf.

Our office's work has continued through the transition into the Obama Administration. We are producing cutting-edge research that documents small business's role in our economy. Our most recent report, *Effective Federal Income Tax Rates Faced by Small Businesses in the United States*, is profiled elsewhere in this issue. Moreover, Advocacy works closely with House and Senate offices, providing guidance on legislative proposals and policy matters affecting small businesses. Members of Congress and their staff continue to turn to Advocacy as the source for research and information about our nation's small businesses.

We continue our work with federal regulatory agencies to monitor their compliance with the Regulatory Flexibility Act. Our ongoing efforts on your behalf have resulted in several comment letters to federal agencies, including the Occupational Safety and Health Administration, the Environmental Protection Agency, and the Department of Homeland Security. These letters call attention to small business issues raised by regulatory proposals. Finally, our staff is posting breaking stories, insights, and analysis to our new blog, the Small Business Watchdog.

However, none of our work would be possible without your voice, your ideas, and your con-

cerns. The Office of Advocacy does not operate in a vacuum. We take our direction from you. It is your voice that we bring to the halls of Washington. It is from listening to small business owners from across the country that I have gained the new appreciation for your dedication and hard work, especially during these trying economic times.

Advocacy does not operate in a vacuum. We take our direction from you. It is your voice that we bring to the halls of Washington.

Even if you haven't contacted us directly, we hear your voice in several ways. First, your trade associations provide one of the best ways to bring your concerns to us. We know that most of you do not have time to follow the ins and outs of Washington policy battles. But your trade associations do. Their staffs take the time to read through bills and regulations, sit in on hearings, testify before committees, and meet with individual members of Congress. They bring us valuable intelligence about what is happening in Washington and across the country.

Second, participation in industry roundtables moderated by Advocacy staff is another way to bring your ideas to the fore. Regular roundtables in general issue areas and ad hoc meetings on specific topics are held in Washington, and at various times around the country. These provide our staff with in-depth knowledge from industry experts—knowledge that we then transmit to federal agencies and elected officials.

Third, you can contact the Office of Advocacy directly through email. Use our inbox at advocacy@sba.gov to send us your ideas, comments, questions, and concerns. You can also comment directly to federal agencies about proposed regulations that may affect your business. Use the Reg Alerts section of our website to find out more about these proposals and use the links provided to send comments about them to the appropriate officials.

During the discussions of economic recovery and budget proposals, your voice is more important than ever. As acting chief counsel, with your help I will make sure that the Office of Advocacy continues to advance your views, concerns, and interests before Congress, the White House, federal agencies, federal courts, and state policymakers.

Advocacy Online Resources

- Website: www.sba.gov/advo
- Legislative comment letters: www.sba.gov/advo/laws/comments/legislative.html
- Research reports: www.sba.gov/advo/research/chron.html
- Regulatory comment letters: www.sba.gov/advo/laws/comments
- Blog: <http://weblog.sba.gov/blog-advo>
- Reg Alerts: www.sba.gov/advo/laws/law_regalerts.html
- Listservs: <http://web.sba.gov/list>

Economic News

Small Businesses Provide Flexible Training to Job Market Entrants

by Jules Lichtenstein, Senior Economist

In addition to reviewing the economic environment facing small businesses, the latest edition of *The Small Business Economy*, produced by the Office of Advocacy, presents new research on training for small business employees and owners (see Chapter 5).

Small businesses play an important role in training the country's workforce. As well as being primary job generators, small businesses are major trainers of U.S. employees. About two-thirds of workers get their first job in small firms; thus small firms train much of the workforce. The training offered in small firms tends to be more general, informal, and flexible than that provided by large firms.

Training is a particularly important topic at this time. The recession, high unemployment rate, and decline in self-employment have important implications for how

small businesses train and retrain the workforce and whether entrepreneurs can start businesses and create jobs. Small business workers as well as owners need training to improve, maintain, and update skills, especially when technology changes rapidly. The recently enacted stimulus package includes \$4.5 billion in additional monies for job training.

Census data from the 2004 Survey of Income and Program Participation (the latest available) provide updated findings about formal training. They indicate that:

- Small firm employees are much less likely than those in large firms to receive formal training. (The chapter defines "small" as having fewer than 100 employees.)
- Formal, employer-provided training has declined since the mid-1990s.

- Women employees are more likely than men to receive training.

- In small firms, workers with union status are more likely than non-union workers to receive training; in large firms the opposite is true.

- Most formal employee training takes place on the job, but workers in small firms are more likely to receive off-site training than large firm workers.

- Small firm workers are more likely than large firm workers to pay for off-site training or to have family members foot the cost.

- Almost 15 percent of all business owners received training during the previous year to improve their skills.

For more information, refer to Chapter 5 of *The Small Business Economy* at www.sba.gov/advo/research/sb_econ2008.pdf.

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