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The Small Business Advocate

Advocacy: the voice of small business in government

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Advocacy Symposium Breaks New Ground Examining the Capital Crunch

by Kathryn Tobias, Senior Editor

The Office of Advocacy's September 15 symposium, "The Small Business Capital Crunch: Debt and Equity" sought concrete solutions for the ongoing difficulties small firms have been facing in accessing capital. The event at the U.S. Capitol Visitors Center provided participants with three new research products from Advocacy, including the pamphlet *Frequently Asked Questions about Small Business Finance.* (See page 2 for details.)

Chief Counsel for Advocacy **Winslow Sargeant** opened the symposium with personal recollections from his days as cofounder and co-owner of a dynamic high-tech startup and as a venture capitalist, helping breathe life into promising new ventures.

Syndicated columnist and CNN contributor **Roland Martin** then issued a challenge to the participants. "What is needed is a more aggressive stance from the participants who are trying to make things happen in the banking and venture capital sector," Martin said. "Business owners need to hold their Members of Congress accountable. Banks need to be encouraged to provide funds." He invited small business owners to email their job vacancies to him for him to Tweet to his tens of thousands of followers. "And if the number one problem is access to capital, that's the only conversation," to have with policymakers, he said.

The first panel, **"How to Fix the Banking Crunch,"** brought together two economists and a small business owner for their perspectives on banking sector challenges.

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Participating in a Congressional Black Caucus roundtable discussion on closing the wealth gap were Small Business Committee Chair Mary Landrieu, Staff Director Don Cravins, Senator Ben Cardin, SBA Deputy Administrator Marie Johns, and Chief Counsel Winslow Sargeant. (Story on page 8.)

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Research Notes

From the Advocacy Press: Three New Finance Publications

by Rebecca Krafft, Editor

Advocacy's Office of Economic Research and Office of Information produced three new small business finance documents in September.

Frequently Asked Questions about Small Business Finance is an eight-page pamphlet that illustrates the financial ecosystem. The financial ecosystem is the full range of resources that firms access to survive and grow—from mom-and-pops, on the one hand, to high-tech startups, on the other. The *Finance FAQ* sketches this full range of debt, equity, and other sources. And it provides data breakouts by industry, demographic group, the businesses' stage of life (startup or expansion), and business size. It illustrates recent and longer-term trends in lending and equity markets.

This new small business finance primer can be found on the Advocacy website at **www.sba.gov/advocacy/851/23171**.

The Growing Impact of Credit Unions on Small Business Lending, authored by James Wilcox of the University of California–Berkeley, finds that credit unions may have provided some extra business lending in response to reductions by banks, even during the financial crisis.

The author chose to study credit unions as a source of small business loans (defined as loans under $1 million), since these loans have risen substantially over the past decade. The growth in credit unions' small business lending is apparent in many respects—small business loans have risen relative to total loans and assets at credit unions; relative to small business loans at community banks; and relative to small business loans at all banks.

Wilcox found that small business loans from credit unions tended to partially offset declines in business loans at banks. The results suggest that credit unions are an increasingly important source of small business loans as a longer-run development and in response to banks' small business lending fluctuations. The study also suggests that the extent of the credit union offset to bank business lending varied considerably across regions. The estimates show that credit union offsets to bank business lending were pronounced in the South and Midwest. The results from the North and West indicate that rather than offsetting bank lending, credit union business lending may have accentuated shocks to bank business lending in those areas.

The Growing Impact of Credit Unions on Small Business Lending, by James Wilcox, is available at **www.sba.gov/advocacy/851/23691**.

Bank Liquidity Pressures and the Availability of Bank Credit to Small Firms: Was the 2007-2009 Credit Crisis Different?, by Joe Peek of the University of Kentucky, finds that bank holdings of liquid assets became an important factor for bank lending during the financial crisis. Generally, this sensitivity persisted during the immediate post-crisis period. The evidence also suggests that healthier banks tended to shy away from small commercial and industrial (C&I) and small commercial real estate (CRE) loans.

Several interesting patterns emerged for changes in small loan shares. A general rebalancing effect is apparent for both small C&I and CRE loans in their shares relative to both total assets and total loans. That rebalancing appears to be primarily at the expense of large, not small loans. The study finds that unused loan commitments tended to become less important and did not appear to play a role in the relative composition of small versus large C&I and CRE loans, other than as a temporary increase in C&I loan commitments during the crisis. To the extent that unused C&I loan commitments positively affected the change in small C&I loans relative to total assets and total loans, they did not appear to do so at the expense of large C&I loans.

Bank Liquidity Pressures and the Availability of Bank Credit to Small Firms: Was the 2007–2009 Credit Crisis Different?, by Joe Peek, is available at **www.sba.gov/advocacy/851/23701**.

The Small Business Advocate

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Message from the Chief Counsel

Access to Capital Dominates Advocacy's September Agenda

by Dr. Winslow Sargeant, Chief Counsel for Advocacy

The month of September was buzzing with activity for Advocacy in the finance arena. While the old battle cry for investors is "it takes money, to make money," as a former entrepreneur, I would like you to know that our battle cry is "it takes financing, to make jobs."

In the one year and one month that I've been on the job as chief counsel, I've visited businesses in all 10 of the country's federal regions. Time and again, small business owners tell me that one thing stands in the way of expanding their businesses: access to capital.

This is also something I'm familiar with from personal experience, owning a business and later directing venture capital to promising startups.

Advocacy has been deeply involved in analyzing the problem and seeking solutions, producing three research publications and convening a half-day symposium in September. (See page 2.)

One publication dealt with the rise in credit union lending to small business. Another study analyzed the 2007-2009 credit crisis. The third publication took on a much more general topic—the financial ecosystem.

Few people are familiar with the idea of the "financial ecosystem." It's a helpful concept that refers to the full range of resources that firms access to survive and grow—from mom-and-pops on the one hand to high-tech startups on the other. Illustrating the financial ecosystem in a manageable form is not easy to do. This month, with the publication of *Frequently Asked Questions about Small Business Finance,* Advocacy's economists have made a significant contribution in creating a guide to significant data, trends, and concepts in financing.

Advocacy's economists joined with several authors in a luncheon discussion of research results on September 14. Joining them were the office's 10 regional advocates, visiting Washington for a rare full staff training session.

Finally, on September 15, the office, key experts, and small business owners and representatives convened for an insightful symposium on the Capital Crunch. From the event, a few messages echoed throughout the walls of the Capitol Hill Visitors Center.

- Roland S. Martin stressed the importance of small business owners standing up as a group to be heard.
- A respected banking panel recognized that the bank practice of evaluating small business books from the previous years during the downturn was not a good crystal ball into their future financials.
- A distinguished equity panel recognized the current need for venture capitalists to be able to exit their investments to free up cash and develop new sources of funds; one such example would be university alumni groups.

This newsletter includes in-depth coverage of the symposium, plus a closer look at Advocacy's new research in the area of small business finance. I'm proud of the work that Advocacy has done in this arena. We will continue to listen to small business concerns and raise them here in Washington.

Syndicated columnist Roland Martin engaged the symposium participants.

James Chessen speaks with Advocacy economists Brian Headd and Joseph Johnson.

Symposium, *from page 1*

Federal Reserve Board research economist **Traci Mach** set the scene, delving into the numbers behind the capital crunch in the banking sector. Small business loans continued to decline in the second quarter of 2011, she said, while large business loans picked up. She pointed to three causes: weaker demand from small businesses, diminished asset levels because of weaker sales and lower real estate values, and less bank credit as banks tightened their lending standards. These three factors are interdependent: small firms are less likely to seek loans if their sales are weak in a weak economy, and banks need more collateral for riskier loans—collateral that is less available. Any viable solution must take into account all three factors, Mach said.

Jim Chessen of the American Bankers Association focused on the landscape for banks. Big banks usually grab the headlines, but there are 7,000 banks in the country, and the median-sized bank employs 41 people, he explained. In other words, most banks are themselves small businesses, as well as leaders in their communities. They are under pressure both from small firms to get business done and from regulators to make no mistakes. For each potential borrower, a bank has to decide what the likelihood is that it will be repaid. With asset values declining, banks struggle because the typical underwriting standards require them to look at the borrower's record for the last three years—and that record has not been good recently. The Dodd-Frank Act has significantly added to the regulatory burden for small banks, Chessen said. For every person actually doing the business of lending, banks must employ another one or two people just to handle regulatory compliance; this is an untenable ratio.

Marilyn Landis, president and CEO of Basic Business Concepts, Inc., said that in her recent experience providing financial services to small businesses, she has watched small firms struggle with the downturn—and has firsthand experience with the survivors. They were the smart ones, she said. They shuttered their unprofitable operations, burned through cash, sold nonperforming assets, downgraded from "the Hummer to the Ford," and raided retirement plans. They are leaner, tougher, and smarter. Now they are struggling to get customers, and they need capital to bring their employees back. They lack collateral, have used their cash to survive, and no family funds are available to help at this point. If they are unable to access the small amount of debt capital they need to prime the pump, they will not be placing orders with vendors or hiring their employees back. The greatest need for capital is in amounts under $250,000.

If banks cannot meet their needs, they will have to find other means of accessing capital. Landis said she would like to see more affordable and accessible alternatives.

New techniques in evaluating borrowers are also needed, she said."We need lenders that can master projections—that can analyze future cash flow as predictors of a borrower's ability to pay back loans." In turn, nonbank lenders with delivery systems and credit expertise need access to capital so they can make it accessible to small businesses.

The second panel, **"How to Fix the Equity Crunch,"** assembled three experts who discussed the current state of the venture capital market, a go-to source for the dynamic businesses characterized by high risks and high rewards.

Daphne Dufresne, managing director of RLJ Equity Partners, said that in the lower middle market—companies with cash flow of $6 million to $15 million—equity infusions have led to increases in jobs and growth. Usually the investments are to help grow the busi-

Federal Reserve Board Economist Traci Mach.

American Bankers Association Chief Economist James Chessen.

nesses—involving acquisitions, new markets, or international growth.

Dufresne described one success story. When "two guys" started a company producing a better insulated paper cup, "We put in $20 million over several years, making their hybrid plant a real plant, and expanding the team." It took seven years for the cycle to reach fruition, and it was a success for all concerned. The business owners put their lives, sweat, and capital into it, while the investors quadrupled their investment. For the company that purchased the business, it was also a success. "But you have to dip down to go up," she said. The greater the risk, the greater the expected return.

Mark Heesen, president of the National Venture Capital Association, said that in contrast to bank financing, with equity financing, it's not just about the money. The entrepreneur has to ask how the venture capital team will help grow the company. The key element is the relationship.

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Action Ideas From the Banking Panelists

Traci Mach, Federal Reserve Board:

- Banks need to accurately evaluate the potential of firms—not by looking back to the last three years of terrible sales, but by finding a more relevant way.
- Banks should not make undocumented loans.
- Regulators need to recognize that small business lending is very important and not come down on banks making prudent loans.

James Chessen, American Bankers Association:

- Regulators should tier their requirements for small banks, so that a bank with two and a half employees is not subject to the same regulations as a megabank.
- New banks should not be required to go through the same rigorous stress tests.
- Rationalize regulations and work from the bottom up with the level of complexity.

Marilyn Landis, Basic Business Concepts, Inc.:

- Economic development programs could change the definitions used to target money to "economically depressed" or "underserved" areas. Many solid businesses are now in areas that are in fact economically depressed or underserved, but they do not meet all the current defining criteria.
- In areas where banks are struggling to rebalance their portfolios and where firms overborrowed during the expansion, small banks could take a "short loan," forgiving part of the repayment. However, debt forgiveness is taxable for the borrower. Public policy could allow waiver of the tax on the forgiven portion of the loans, so that firms would not be hammered with a higher income tax rate.
- Landis encouraged SBA to use its resources in more targeted ways. For loans under $250,000, she said SBA could help beef up support for lending by accepting signed contracts and purchase orders as an alternative form of collateral. SBA could open its programs to qualified nonbank lenders.

Marilyn Landis, president and CEO of Basic Business Concepts.

Advocacy's Director of Information, Jody Wharton, and SBA National Ombudsman, Esther H. Vassar.

Action Ideas from the Equity Panelists

Daphne Dufresne, RLJ EquityPartners:

- An efficient tax structure makes a lot of sense. Get rid of long-term gains tax treatment, which hurts the industry.
- One lever is SBIR funding of promising science-based innovation at an early stage. Companies are precluded from SBIR funding after they have received venture capital—but it may be that such a company cannot get more venture capital funding or needs more funds than are available. Should that policy be reexamined?
- The exit environment is key. If there is no way to monetize returns, investors can't get out. This is an area that needs attention.
- Both debt and equity are essential in venture capital markets. Venture capitalists have to work all angles to find liquidity.

Mark Heesen, National Venture Capital Association:

- One of the easiest things governments can do is make state pension fund investments. Many states have the ability to put 1 percent of their pension funds in alternative assets and venture capital. To encourage development, states could invest in emerging growth companies. Data show that after 10 to 15 years there are significant returns.
- Venture capitalists need more patience in the current climate. With an unstable market and more regulation, it's harder for companies to go public, especially an outside-the-box, venture capital–backed company for which there are no comparables. In the current environment, venture capitalists have to hold companies longer, which means they have less time for early-stage deals

David Robinson, Duke University:

- Get universities involved in creating more funding for startups. Universities have a role in fundraising—the alumni network is already in the mindset of giving back to the school. Could that motivation be channeled into innovative ideas? Could tax breaks help implement this idea? Could funds be established to help set up university investment funds?
- The angel market is tax sensitive—and tax is relatively easy policy to manipulate. Could angels make charitable contributions to funds that are satellites of universities?
- What about a tax treatment that allows an entrepreneur to shield gains from taxes by investing in other businesses?
- If early-stage side investment could be made more attractive with exit opportunities, money would flow to these younger businesses.

Daphne Dufresne, managing director of RLJ Equity Partners.

Mark Heesen, president of the National Venture Capital Association.

Symposium, *from page 5*

What you see today, Heesen explained, are better entrepreneurs, more realistic about their companies, the company's valuation, and its international competitiveness. From the perspective of venture capitalists, it's a better time to seed some of these companies. Very few companies get venture capital—just several thousand a year. Venture capitalists look at more than 500 companies a year and invest in just two or three. Even if the product is game changing, companies can fail—it's part of the business cycle. So venture capitalists have to offset the failures by aiming to get three to four times the money they invest.

Also, there is a challenge to find funds—much of it has come from public pension funds in the past. But as more pension funds move toward defined-contribution plans and away from defined-benefit plans, the availability of this source is dwindling.

Companies can be acquired, go public, or go out of business. Currently, 90 percent of companies that are successful are acquired. Public markets have been abysmal—which has not been helpful in opening up the initial public offering market. So companies have to look at being acquired and who would be an attractive suitor.

And there is the critical government role. The SBA's Small Business Investment Company (SBIC) program has helped support the growth of the venture capital market. The government also supports basic research and development, a key function.

David Robinson, professor of finance at Duke University's Fuqua School of Business, added that while venture capital–backed firms are a very small fraction of the number of small firms, they account for a disproportionate share of job growth. In the post–tech-bubble world, it is very hard to exit early-stage investments—so it becomes hard for venture capital firms to make early-stage investments. This is a huge problem for small businesses and the economy as a whole. It can shut down innovation, which (in good times) ripples through the economy and has real consequences for job growth. Early-stage angel investors hand companies over to venture capitalists when they are more mature, "adolescent" companies.

Chief Counsel **Winslow Sargeant** closed the day by calling on SBA Deputy Administrator Marie Johns. Johns discussed President Obama's American Jobs Act, designed to put more people back to work and put more money in the pockets of working Americans. The President's plan includes administrative, regulatory, and legislative measures to help small firms start and expand. These measures include

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David Robinson, professor of finance at Duke University's Fuqua School of Business.

SBA Deputy Administrator Marie Johns.

Chief Counsel Participates in Congressional Black Caucus Activities

Jobs were the focus of the Congressional Black Caucus Foundation's annual Legislative Conference, September 21–24. More than 70 forums and panels took place over the course of the conference. Job creation has been a particular challenge for African Americans in the current economic crisis, and the discussion naturally turned to small businesses, which historically have created most of the net new jobs.

Chief Counsel for Advocacy Winslow Sargeant was a featured speaker on two panels focusing on small and minority business job creation. The first panel was led by Senate Small Business Committee Chair Mary Landrieu and Congressman Chaka Fattah. The second panel was hosted by Congressman William Lacy Clay.

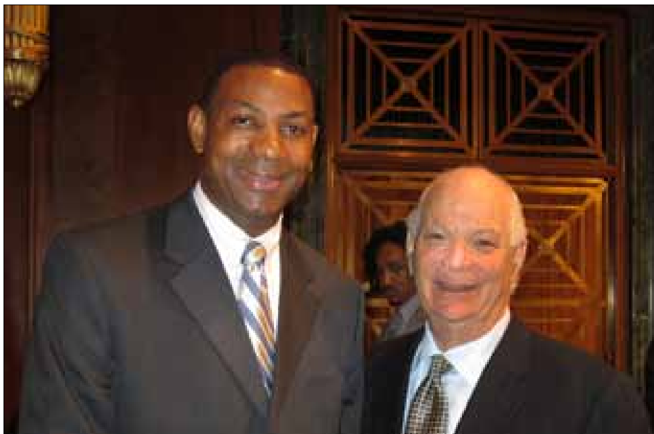
The first panel looked at a study by the Pew Research Center which found that the wealth gap between whites, blacks, and Hispanics has grown during the financial crisis. Senator Landrieu pointed out the drop in net worth, particularly in minority communities, as one key reason that many would-be minority business owners have difficulty securing a loan—and starting or growing a business.

Chief Counsel Sargeant pointed to Advocacy's September 15 symposium as an effort to identify solutions to the capital access challenges faced by small business owners, especially those with low net worth.

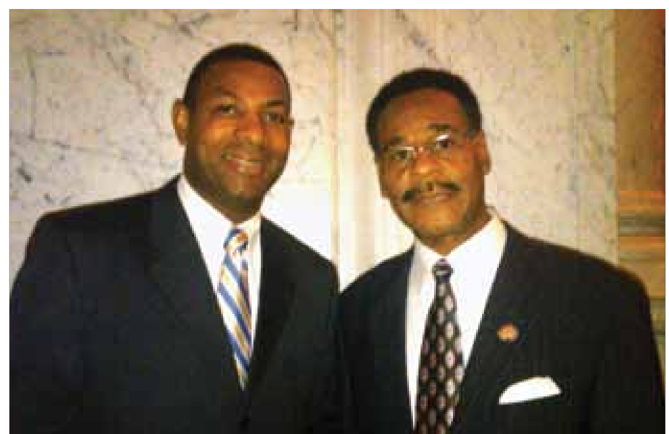
The second panel focused on ways to encourage minority business growth through federal procurement policies, particularly with respect to small businesses owned by minorities and veterans. During this panel, Dr. Sargeant focused on Advocacy's efforts to simplify regulatory requirements for these small businesses.

Regional Advocate Teri Coaxum participated in two events: "Small Business and Our Community: Surviving the Global Recession," hosted by Rep. Yvette Clarke and Rep. Cedric Richmond, and "Global Business Opportunities for Minority Enterprises," hosted by Rep. Gregory Meeks.

—Kathryn Tobias



Chief Counsel Sargeant and Senator Ben Cardin (above). Minority Business Development Agency Director David Hinson; Maj. Gen. Roger R. Blunt, USA (Ret.); Congressman William Lacy Clay (host); and Sargeant (below).



Chief Counsel Sargeant and Congresswoman Yvette Clarke during Congressional Black Caucus Week activities (above). Chief Counsel Sargeant and Congressman Emanuel Cleaver (below).

Advocacy Recommends That OSHA Consider Further Burden Reduction for Small Businesses

by Bruce Lundegren, Assistant Chief Counsel

On September 28, the Office of Advocacy submitted comments to the Occupational Safety and Health Administration (OSHA) on its *Proposed Occupational Injury and Illness Recording and Reporting Requirements—NAICS Update and Reporting Revisions Rule*.

OSHA's proposed rule would do three things:

- Convert for recordkeeping purposes the classification of industries from the old Standard Industrial Classification (SIC) codes to the newer North American Industrial Classification System (NAICS) codes,
- Revise the list of industries that are required to maintain OSHA 300 Logs based on more recent DART (days away, restricted, or transferred) rates, and
- Require employers to report directly to OSHA any work-related fatality or in-patient hospitalization of an employee (within eight hours), or any work-related amputation (within 24 hours).

One of the most significant changes from the proposed rule would be that certain industries that have not been required to maintain OSHA 300 Logs in the past would now have to maintain them, and others that have had to maintain them in the past would no longer have to do so.

An OSHA 300 Log is a record of work-related injuries and illnesses that certain non-exempt employers are required to maintain. According to OSHA's analysis, the net effect of the proposed change would be that some 40,000 additional firms and 80,000 additional establishments (employing nearly 1.4 million additional employees) would have to maintain OSHA 300 Logs as compared to the current rule. Overall injury and illness rates have been declining for many years.

Advocacy's letter applauds OSHA's proposed transition from SIC to NAICS; NAICS is the most up-to-date standard used by federal statistical agencies, and it has been adopted by SBA for classifying small businesses. However, small business representatives have expressed concern that industries with declining injury and illness rates would now be required to maintain OSHA 300 Logs even though their workplaces have become safer. Under OSHA's proposed rules, industries falling in the bottom 25 percent of the average DART rates would be required to maintain OSHA 300 Logs. Advocacy recommends that OSHA consider flexible approaches to reducing paperwork burdens on small business, such as lowering the threshold level for recordkeeping, utilizing surveys to obtain objective industry data, or partially exempting more categories.

Small business representatives have raised several other concerns with the proposed rule, such as OSHA's wage cost assumptions, the definition of "in-patient hospitalization," and the circumstances under which an employer must directly notify OSHA of employee hospitalizations. Advocacy recommends that OSHA consider the merits of these comments and conduct additional small business outreach before proceeding.

Advocacy's September 28 letter to OSHA is available at **www.sba.gov/advocacy/816**. For more information, please contact Assistant Chief Counsel Bruce Lundegren at (202) 205-6144 or **bruce.lundegren@sba.gov**.

Symposium, *from page 7*

speeding up government payments to small businesses, reducing their regulatory burdens and removing some withholding requirements that keep capital out of the hands of job creators.

A number of ideas emerged from the symposium, although none promises an overnight solution to the twin challenges of making debt and equity capital available to entrepreneurs. Dr. Sargeant noted that while one year is a data point to an economist, to a small business owner it's 365 mornings of waking up to basic worries about business survival, making payroll, and other critical issues that will "shave years off your life." Those who will create the next generation of great companies will need the capital to start, expand, and prosper.

Chief Counsel Applauds Labor Department's Postponement on Revising H-2B Visa Wages

by Patrick Morris, Public Liaison and Media Manager

Chief Counsel for Advocacy Winslow Sargeant applauded the Department of Labor's recent decision to postpone the final rule on wage methodology for the H-2B visa program for 60 days. The rule's effective date is now November 30. Advocacy has consistently worked with small business on the H-2B rule and has written four comment letters to the department citing the negative impact the wage increase will have on small businesses.

"The potential wage increases under the current H-2B structure would price many small businesses out of the marketplace," Dr. Sargeant said. "And while I support the postponement, the Office of Advocacy is committed to working further with small business and the Labor Department on ways to improve this H-2B rule. These remain challenging times for small businesses. It is important that their voice is heard."

The H-2B program provides employers who face a shortage of seasonal workers with a legal method of temporarily hiring foreign workers. Some of the top industries that utilize the H-2B program are landscaping, lodging, construction, restaurants, and seafood processing. Under the current rule, H-2B wages in affected industries would increase by $1.23 to $9.72 per hour.

In the past 12 months Advocacy has held two roundtables with small business on the H-2B issue. Advocacy's regional advocates have heard from small businesses across the country about the negative impact of the rule. Advocacy will continue to monitor the H-2B issue and its effect on small business.

Advocacy Welcomes New Addition to the Environmental Team

by Kathryn Tobias, Senior Editor

This month, the Office of Advocacy welcomes a new assistant chief counsel to its Interagency team, Sarah Bresolin Silver. She joins the team as the third attorney working on Environmental Protection Agency regulations and Small Business Advocacy Review panels.

Bresolin Silver obtained her J.D. from the University of Western Ontario in London, Canada, in 2006, and LLM from the George Washington University Law School in January 2011. She is licensed to practice law in New York, Massachusetts, and Ontario. After law school, Bresolin Silver practiced for one year in corporate and securities law in Toronto and in litigation in Boston. In 2010–2011 she worked for the World Bank in their international arbitration center and with the United Nations Conference on Trade and Development. Most recently, she has provided legal counsel to an environmental product development company in Boston, Massachusetts, drafting option awards and nondisclosure agreements and advising on commercial issues.

You can reach Assistant Chief Counsel Bresolin Silver at **sarah.bresolin@sba.gov** or (202) 205-6790.

EBSA Withdraws Proposed Rule to Update the Definition of "Fiduciary"

by Dillon Taylor, Assistant Chief Counsel

On September 19, the Department of Labor's Employee Benefits Security Administration (EBSA) announced that it planned to withdraw and later re-propose a disputed rule. The proposed rule would have updated the definition of "fiduciary" that the agency uses for retirement plans governed by the Employee Retirement Income Security Act (ERISA). More information is available at: **www.dol.gov/ebsa/newsroom/2011/11-1382-NAT.html**

EBSA published the proposed rule on October 22, 2010. It would have amended a 1975 regulation that defines when a person providing investment advice becomes a fiduciary under ERISA. The proposal would have expanded the scope of that definition to take into account changes in the expectations of plan officials and participants who receive advice, as well as the practices of investment advice providers.

On August 31, 2011, Advocacy hosted a small business employee benefits roundtable to provide small business owners and representatives the opportunity to discuss the proposed rule with EBSA staff. At the roundtable, small business stakeholders raised questions and concerns related to the costs and burdens the proposed rule would impose on small businesses. For example, small business representatives observed that the proposal underestimated the number of small businesses that the rule would affect, as well as the costs it would impose.

However, other small business owners and stakeholders at the roundtable spoke in favor of the proposed rule. For example, certain small business representatives expressed satisfaction with the proposed rule because they are already treated as fiduciaries. The proposed rule would have leveled the playing field by holding others who offer similar products and services to the same requirements.

In the EBSA's September 19 announcement, the agency acknowledged that small business concerns were a factor in the agency's decision to withdraw the proposal. The Office of Advocacy appreciates that EBSA staff listened to the issues raised by small business regarding the proposed rule, and we hope that EBSA will take into account small business concerns when drafting the new proposal.

Research Notes

Developments in Women-Owned Businesses, 1997–2007

A new study by the Office of Advocacy looks at developments in women-owned businesses between 1997 and 2007, using data from the Census Bureau's Surveys of Business Owners. This dynamic period was marked by rapid growth overall, with a slowdown during the 2000–2001 recession, followed by strong growth in 2002–2007. Women's share of total U.S. firms increased from 26 percent in 1997 to almost 29 percent by 2007.

"In a series of roundtables across the country, we heard from women business owners that they face many of the same challenges other small business owners face—particularly challenges related to access to capital and regulatory burdens," said Chief Counsel for Advocacy Winslow Sargeant. "This research places women-owned businesses in the context of the wider business community and will provide valuable information for policymakers as we move forward."

The study, *Developments in Women-owned Business, 1997–2007,* compares the characteristics of firms owned by women with those owned by men, as well as those that are publicly held or not identifiable by the gender of their owners. The study finds that 12 percent of women-owned firms were employers in 2007, while 88 percent were nonemployers. Women-owned businesses accounted for 4 percent of total business receipts in 2007.

Women-owned firms employed 6.4 percent of the 118.6 million employees of employer firms in 2007. The top four sectors for employer firms owned by women were retail trade, professional services, health care and social assistance, and accommodations. In five states and the District of Columbia, the number of women-owned businesses per 1,000 persons was greater than 30 in 2007.

The report is based on U.S. firm information from the 1997, 2002, and 2007 Surveys of Business Owners, the latest three comprehensive datasets released by the U.S. Bureau of the Census. To view the full report, visit **www.sba.gov/sites/default/files/rs385tot_0.pdf.**

Tax News

IRS Announces Voluntary Worker Classification Settlement Program

On September 21, the Internal Revenue Service launched a new program that will enable many employers to resolve past worker classification issues. This new Voluntary Classification Settlement Program (VCSP) is available to many businesses that currently erroneously treat their workers as "independent contractors," and now want to correctly treat these workers as "employees." Under the VCSP, eligible employers can obtain relief from federal payroll taxes they may have owed for the past, if they prospectively treat workers as "employees" rather than "independent contractors." The IRS is not providing an opportunity to comment on the VCSP.

For more information, see Announcement 2011-64 on the IRS webpage (**www.irs.gov/pub/irs-drop/a-11-64.pdf**). Advocacy's contact on this issue is Assistant Chief Counsel Dillon Taylor, who may be reached at **dillon.taylor@sba.gov** or (202) 401-9787.

Social Media Update

Here's the Office of Advocacy's latest list of electronic handles.

- Advocacy is on Facebook at: **www.facebook.com/AdvocacySBA**
- We are on Twitter at: @ADVOCACYSBA.
- Our blog, "The Small Business Watchdog," is at **http://weblog.sba.gov/blog-advo**.
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