

What is a small business?

The Office of Advocacy defines a small business as an independent business having fewer than 500 employees. For the small business definition by industry used in government programs and contracting, see www.sba.gov/content/small-business-size-standards.

How many small businesses are there?

In 2011, there were 28.2 million small businesses, and 17,700 firms with 500 employees or more. Over three-quarters of small businesses were nonemployers; this number has trended up over the past decade, while employers have been relatively flat (figure 1).

Small businesses comprise what share of the U.S. economy?

Small businesses make up:

- 99.7 percent of U.S. employer firms,
- 63 percent of net new private-sector jobs,
- 48.5 percent of private-sector employment,
- 42 percent of private-sector payroll,
- 46 percent of private-sector output,
- 37 percent of high-tech employment,
- 98 percent of firms exporting goods, and
- 33 percent of exporting value.

Source: U.S. Census Bureau, SUSB, CPS; International Trade Administration; Bureau of Labor Statistics, BED; Advocacy-funded research, *Small Business GDP: Update 2002-2010*, www.sba.gov/advocacy/7540/42371.

What is small businesses' share of net new jobs?

Small firms accounted for 63 percent of the net new jobs created between 1993 and mid-2013 (or 14.3 million of the 22.9 million net new jobs). Since the end of the recession (from mid-2009 to mid-2013), small firms accounted for 60 percent of the net new jobs. Small firms in the 20-499 employee category led job creation.

Source: Bureau of Labor Statistics, BED. For the latest employment statistics, see Advocacy's quarterly reports, www.sba.gov/advocacy/10871.

How can small businesses' share of net new jobs be larger than their share of employment, yet their share of employment remain steady?

As firms grow, they change employment size classes. So as small firms grow, their growth counts toward small firm job gains; but if they pass the 500-employee mark, their employment is classified as large firm employment.

Which businesses create more jobs—startups or existing businesses?

In the last two decades about 60 percent of the private sector's net new jobs have been created by existing establishments and about 40 percent from the churn of startups minus closures. While firm births account for many new jobs, job losses from firm closures are equally important in accounting for net effects to employment levels.

Source: Bureau of Labor Statistics, BED.

How many businesses open and close each year?

About 10 to 12 percent of firms with employees open each year and about 10 to 12 percent close (table 1). Employer firm births and deaths were up in the most recently available data. Establishment birth figures from 2012 also showed gains (figure 2). Nonemployer firms have turnover rates three times as high as employer firms, mostly because it is easier for nonemployers to start and stop, as they tend to be smaller than employer firms. Business bankruptcies numbered 33,212 in 2013, a decline of about 7,000 over the previous year. Note that not all firm deaths are business bankruptcies, and many business owners file personal bankruptcy instead of business bankruptcy.

What is the survival rate for new businesses?

About half of all new establishments survive five years or more and about one-third survive 10 years or more.

Figure 1: Number of Businesses (millions)



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

Table 1: Employer Firm Births and Deaths*

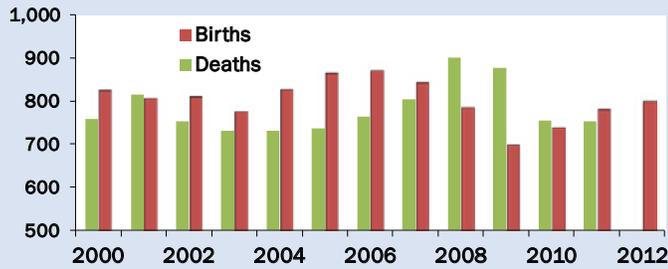
	2000	2009	2010	2011
Births	481,985	410,038	389,774	409,040
Deaths	407,947	508,668	446,944	470,736

*Figures are March to March.

Source: U.S. Census Bureau, BDS.

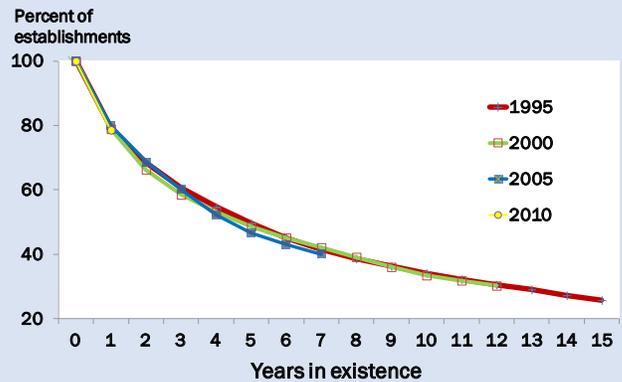
Figure 2: Startups and Closures

(thousands of establishments, seasonally adjusted)



Source: Bureau of Labor Statistics, BED.

Figure 3: Cumulative Survival Rates for Establishments by Birth Year



Source: Bureau of Labor Statistics, BED.

As one would expect, the probability of survival increases with a firm's age. Survival rates have changed little over time (figure 3).

Source: Bureau of Labor Statistics, BED.

How many businesses do women own?

Women-owned firms have increased as a share of total businesses over the years, but they remain smaller, on average, than male-owned firms. In 2012, 36 percent of business owners were women (table 2). The most recently available data on the number of women-owned businesses are from 2007. These data show there were 7.8 million women-owned firms, and they averaged \$130,000 in receipts in 2007 (table 3).

Source: U.S. Census Bureau, SIPP, SBO.

How many businesses do minorities own?

In 2012, nearly 15 percent of all U.S. business owners were non-white (table 2), and over 10 percent of owners were Hispanic. In table 3, data for 2007 on the number of businesses show:

- 1.6 million Asian-owned businesses with average receipts of \$290,000;
- 1.9 million African-American-owned businesses with average receipts of \$50,000;
- 2.3 million Hispanic-owned businesses with average receipts of \$120,000; and
- 0.3 million Native American/Pacific Islander-owned businesses with average receipts of \$120,000.

Source: U.S. Census Bureau, SIPP, SBO.

Table 2. Demographics of Business Owners, 2012 (percent)

		Share of Owners
Age	Under 35	15.9
	35 to 49 ¹	33.2
	50 to 88 ¹	50.9
Gender	Male	64.0
	Female	36.0
Race	White	85.4
	Non-White	14.6
Ethnicity	Hispanic	10.3
	Non-Hispanic	89.7
Veteran¹	Veteran ¹	9.1
	Non-Veteran ¹	90.9

Source: Demographic Characteristics of Business Owners, www.sba.gov/advocacy/847/757305. U.S. Small Business Administration, Office of Advocacy.

1. Statistically significant to at least the 90 percent level.

How many businesses do veterans own?

In 2012, 9.1 percent of U.S. business owners were veterans (table 2). Veteran-owned businesses numbered 3.7 million in 2007, with average receipts of \$450,000 (table 3).

Source: U.S. Census Bureau, SIPP, SBO.

What percent of small businesses operate as . . . ?

The many kinds of small businesses are shown in table 4. The definitions overlap so the shares total more than 100.

Table 3: Number of Firms and Receipts by Demographic, 2007

Business Owner Demographic	Firms (millions)	Receipts per firm (\$1,000)
All businesses	27.1	1,070
Male	13.9	570
Female	7.8	130
Equally male/female	4.6	240
African-American	1.9	50
Asian	1.6	290
Hispanic	2.3	120
Native American/Pacific Islander	0.3	120
Veteran	3.7	450
Publicly held	0.8	23,860

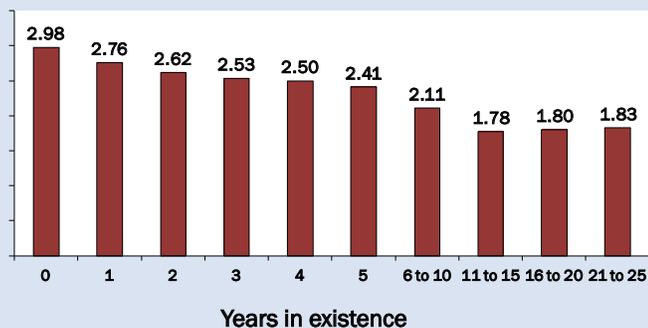
Source: U.S. Census Bureau, SBO.

Table 4: Small Business Shares

Kind of Business	Share of All Businesses (percent)
Home-based business	52.0
Franchise	2.0
Sole proprietor	72.1
Corporation	18.5
Employer business	20.1
Nonemployer (business without employees)	79.9

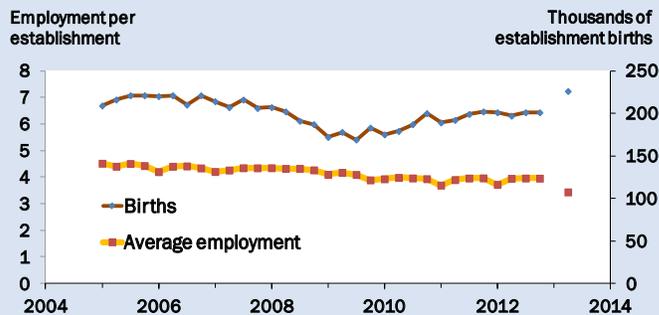
Source: U.S. Census Bureau, SBO, SUSB.

Figure 4: Mean Employment Level for Firm Birth Year, 2000-2011 (millions)



Source: U.S. Census Bureau, BDS.

Figure 5: Number and Size of Establishment Births



Source: Bureau of Labor Statistics, BED.

What happens to the jobs created by startups?

The total employment from a group of startups is highest at birth and declines as the firms age. Put another way, employment gains from growing businesses are less than employment declines from shrinking and closing businesses (figure 4).

Source: U.S. Census Bureau, SBO.

What is the status of the startup market?

While the number of new employer businesses has recovered from the recessionary dip, the average employment of these businesses has been declining over the past decade (figure 5).

Is youth entrepreneurship increasing?

Self-employment among younger age groups has been dropping. From 2002 to 2012, self-employment among individuals age 25 and under decreased 23 percent (compared to a 1 percent increase in the overall population). In contrast, self-employment among those age 65 and over increased 66 percent over this period as their population grew. Self-employment rates increased with age; for example, they were 2 percent for those 25 and under and 22 percent for those 65 and over in 2012.

Source: Office of Advocacy calculations using U.S. Census Bureau, CPS data.

How are small businesses financed?

Small businesses are financed through owner savings; loans from family, friends, and commercial lenders; bonds; stocks; ownership stakes; and other arrangements. For detailed information, see Advocacy's *Frequently Asked Questions about Small Business Finance*, www.sba.gov/advocacy/9601. For up-to-date statistics on credit conditions for small firms, see Advocacy's *Quarterly Lending Bulletin*, www.sba.gov/advocacy/10871.

What are the home-based business trends?

The share of firms that primarily operate out of the home was unchanged from 2002 to 2007 at 52 percent (the latest figure available). Employers had a lower share than nonemployers, 24 percent vs. 63 percent, respectively, in 2007. Of the major industries, construction had the highest share of home-based businesses, 70 percent. (A home-based business is operated primarily out of one's home, but business activities may take place at other locations as well.)

Source: U.S. Census Bureau, SBO.

How does franchise survival compare with independent business survival?

Survival among independent businesses and franchises appears to be similar, as they have similar age distributions. Of course each potential business owner debating an independent business or

franchise arrangement will have unique factors to weigh, such as their managerial talent and sales abilities.

Source: Advocacy research, *Do Business Definition Decisions Distort Small Business Research Results?* <http://archive.sba.gov/advo/research/rs330tot.pdf>. Note that about half of the franchises in the data were nonemployers, which may not be the stereotypical franchise that individuals imagine.

How do small and large businesses compare on innovation?

Of high patenting firms (15 or more patents in a four-year period), small businesses produced 16 times more patents per employee than large patenting firms. Research also shows that increasing the number of employees correlates with increased innovation while increasing sales does not.

Source: Advocacy-funded research, *An Analysis of Small Business Patents by Industry and Firm Size*, <http://archive.sba.gov/advo/research/rs335tot.pdf>; *Innovation in Small Businesses: Drivers of Change and Value Use* www.sba.gov/sites/default/files/rs342tot_0.pdf.

What is small businesses' share of federal government procurement?

In fiscal year 2012, 22.3 percent of all contracting dollars went to small business. The Department of Defense accounted for the majority of small business procurement.

Source: *Small Business Goaling Report 2012*, www.fpdsng.com/downloads/top_requests/FPDSNG_SB_Goaling_FY_2012.pdf.

How are business churn and the economy related?

Business churn is defined as the sum of the firm birth and death rates. It tends to follow the change in GDP with an eight-quarter lag (figure 6). Recently, churn has been down, which may be a response to the general decline in output.

Table 5: Effective Tax Rates, 2013

Legal Form of Business Ownership	Effective Tax Rate (percent)
Non-farm sole proprietorship	15.1
Partnership	29.4
S corporation	31.6
C corporation	17.8

Source: *Entity Choice and Effective Tax Rates*. Quantria Strategies LLC, page 15, table 10. www.s-corp.org/wp-content/uploads/2013/08/Quantria_Study_ETR_8-6-13_Final_pm.pdf.

Note: These calculations include only businesses with positive net income.

What are the effective tax rates for small businesses?

The average effective tax rate for businesses organized as sole proprietorships was 15.1 percent in 2013, with small S corporations facing the highest rates (table 5). (An effective tax rate is usually defined as the amount of tax paid as a fraction of net income or profit.)

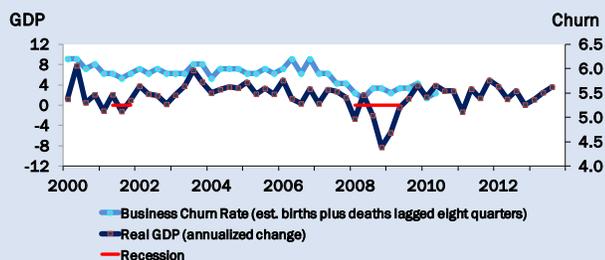
What legal form of organization are small businesses?

Sole proprietors and partnerships constituted 94 percent of nonemployers in 2011 and of the corporations, most were likely S corporations which are taxed at personal rates. Twenty-one percent of small employers were C corporations in 2010, with 72 percent taxed at personal rates and 7 percent nonprofits (figure 7).

Abbreviations & Sources

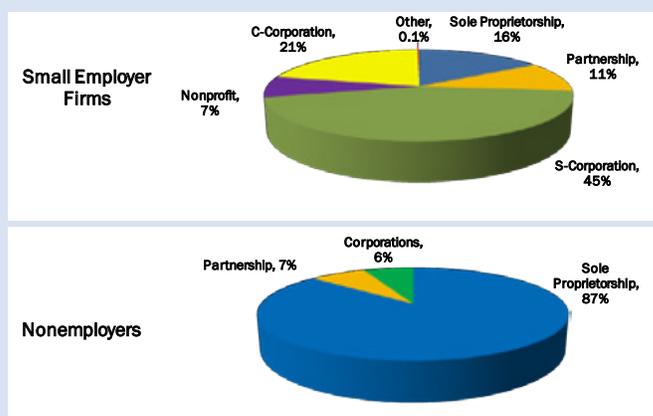
- BED Business Employment Dynamics. U.S. Department of Labor, Bureau of Labor Statistics, www.bls.gov/bdm.
- BDS Business Dynamics Statistics. U.S. Department of Commerce, Census Bureau, www.census.gov/ces/dataproducts/bds.
- CPS Current Population Survey. U.S. Census Bureau, and U.S. Department of Labor, Bureau of Labor Statistics, www.census.gov/cps.
- SBO Survey of Business Owners. U.S. Census Bureau, www.census.gov/econ/sbo.
- SIPP U.S. Census Bureau, 2008 Survey of Income and Program Participation, www.census.gov/programs-surveys/sipp.
- SUSB Statistics of U.S. Businesses, U.S. Census Bureau, www.census.gov/econ/susb.

Figure 6: Real GDP vs. Business Churn (lagged) (percent)



Source: Bureau of Labor Statistics, BED (business churn rate) and Bureau of Economic Analysis (real GDP).

Figure 7: Legal Form of Organization of Small Businesses



Source: U.S. Census Bureau, SUSB and Nonemployer Statistics.

About the Office of Advocacy and Small Business Data

The SBA's Office of Advocacy was created by Congress in 1976. The office's mission includes conducting policy studies and economic research on issues of concern to small businesses. The office also publishes data on small firm characteristics and contributions. Advocacy's website, www.sba.gov/advocacy, contains numerous databases and links to other sources. Two of the most comprehensive pages are the Data Resources page and the Firm Size Data page. Both are accessible from www.sba.gov/advocacy/847. For updates of many small business indicators, see Advocacy's quarterly bulletins on lending and employment at www.sba.gov/advocacy/10871. Two other often visited pages are Advocacy's Banking Study (www.sba.gov/advocacy/7540/719311) and the State Small Business Profiles (www.sba.gov/advocacy/848). Additional questions may be emailed to advocacy@sba.gov.