

# BIIA

## Business Information Industry Association

### How Important is Small Business for the US Economy?

**Important Facts:** While we are on the subject of small business it is useful to review the role that the small operation in the US economy. The statistics are more than a little revealing. The first challenge is defining just exactly what a small business is. The definitions vary quite a bit – from a high of 100 employees to a high of 500 employees. Revenue can be as high as \$25 million but the vast majority make less than a million (30% make less than \$100,000 annually). Suffice it to say that one knows a small business when one sees one.

The small business sector accounts for almost 70% of the nation's GDP and small business has accounted for almost 85% of job growth in the last ten years. The high tech sector is one of the most small business intensive sectors as 39% of all jobs in high tech are with companies defined as small. Most interesting of all is the fact that 99.7% of all employers are small business. It is also worth noting that 55.9% of all small businesses have between one and four employees but that is a number that is a little bit skewed by the fact that the entrepreneur/owner is not considered "employed" by that company. The average income for a small business is \$3.6 million but as noted before those that make less than \$100,000 is almost 30% of the total.

There are some interesting tax figures as well. During the debate over what to do with the Bush tax cuts it was pointed out that 8% of small business pay at the two highest rates of taxation and that was used as an argument for denying the tax cuts to the wealthy. By now most people are aware that a substantial percentage of those that fall in that "wealthy" category are actually small business owners as their company worth is defined as their personal worth. What is not so well known is that this 8% of small businesses that pay at the highest tax level account for 72% of small business income annually and they pay 82% of all small business taxes already. In general small business pays taxes at the 34.3% level and that is far higher than the average tax rate for the Fortune 500.

**Analysis:** There are many conclusions that can be drawn from all this but they all tend to add up to the same basic concept – the US remains a small business driven nation and that means that economic recovery will reside in the small business sector. There have been all kinds of attempts to stimulate the economy in the last few years but relatively little has been aimed at the small business. At the same time there has been considerable regulatory expansion that has affected the small business and not usually for the better. Given the size of the average small business the addition of new regulations are burdensome and often distorting. The newest of these regulations have made hiring decisions complicated and that inhibits growth. This is not to say that there is not a need to address various issues from a regulatory perspective but those who impose these rules need to better grasp the implications for small business and understand that growth is often compromised by the demands placed on small companies by taxes and regulation. The sense is that too much of the stimulus effort has been undercut by the desire to fix the problems exposed by the meltdown.

**Discussion Courtesy of Dr. Chris Kuehl, Armada Corporate Intelligence and Board Member of BIIA March 9, 2011**

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