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"Sometimes, those rules have gotten out of balance, placing unreasonable burdens on business – burdens that have stifled innovation and have had a chilling effect on growth and jobs."

Small Business – Big Opportunity

Finding Solutions for
Small Business Challenges

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Exhibit 1: 2010 small business profile for the states and territories

Private sector businesses

State Name	Estimated Number of Small Businesses	Percent of Employment by Small Firms
United States	27.3 million	49.6
Alabama	77,465	49.3
Alaska	15,981	55.1
Arizona	106,803	47.3
Arkansas	51,035	48.6
California	3.4 million	51.6
Colorado	127,264	50.2
Connecticut	73,779	50.8
Delaware	18,922	45.8
District of Columbia	15,627	46.7
Florida	2.2 million	44.1
Georgia	175,574	45.7
Hawaii	25,478	55.5
Idaho	38,203	59.8
Illinois	1.1 million	48.4
Indiana	112,513	48.2
Iowa	63,234	51.3
Kansas	59,010	53.4
Kentucky	69,175	49.2
Louisiana	80,188	54.6
Maine	33,962	59.7
Maryland	109,693	52.4
Massachusetts	138,846	47.8
Michigan	179,525	51.6
Minnesota	118,391	49.5
Mississippi	45,875	49.7

State Name	Estimated Number of Small Businesses	Percent of Employment by Small Firms
Missouri	117,286	49.1
Montana	31,789	69.3
Nebraska	40,885	50.2
Nevada	47,772	42.8
New Hampshire	31,146	54.0
New Jersey	199,382	50.8
New Mexico	36,030	55.5
New York	2.0 million	51.5
North Carolina	172,732	47.9
North Dakota	17,215	59.5
Ohio	195,830	48.1
Oklahoma	71,313	53.4
Oregon	90,239	56.9
Pennsylvania	233,072	49.3
Rhode Island	24,824	55.9
South Carolina	81,063	49.4
South Dakota	21,057	61.9
Tennessee	99,339	45.0
Texas	2.2 million	45.9
Utah	58,412	48.9
Vermont	18,616	61.4
Virginia	151,505	48.3
Washington	148,178	54.6
West Virginia	29,697	53.0
Wisconsin	112,558	52.3
Wyoming	17,461	65.6

SBA Office of Advocacy, 2010 Small Business Profiles for the States and Territories, available at <http://www.sba.gov/advocacy/805/14513>

Importance of Small Business to the United States Economy

Small businesses are the key to job creation in the United States, providing two out of every three jobs since the 1970s. In the last 30 years, all net job creation in the United States took place in firms less than five years old, according to the Ewing Marion Kauffman Foundation.¹

There are more than 27.3 million small businesses in the United States,² and entrepreneurs launch 600,000 new businesses annually.³ Small businesses represent 99% of employer firms, employ approximately half of all private sector employees, and innovate at a rate 13 times greater than large research and development firms.⁴ Small business truly is the economic engine of the United States. The number of small businesses and percent of employment by small businesses across the country can be seen in exhibit 1.



What Defines a Small Business?

While there are exceptions, the U.S. Small Business Administration generally defines a small business as having up to 500 employees for companies in the manufacturing and mining industries and up to \$7 million in annual receipts for companies in nonmanufacturing industries.

The Travelers Institute and Small Business: Why We Are Involved

Given the importance of small businesses to the national economy, especially as a driver for creating and sustaining jobs, The Travelers Companies, Inc. believes public policies should encourage entrepreneurship.

The Travelers Institute, the public policy division of Travelers, has launched a small business advocacy project designed to raise awareness of the importance of small business to the U.S. economy and to promote an atmosphere that facilitates small business success. Small businesses play a crucial role in job creation, and they should be recognized in local, state, and federal government public policy arenas as key engines of economic growth. As part of this initiative, the Travelers Institute will highlight some of the challenges small businesses face today arising out of government regulation.

A key component of the project is the examination of the impact of unnecessarily burdensome regulations on small businesses. This paper seeks to increase awareness and understanding of the issue in general and some of the specific regulatory burdens in particular with the goal that the increased awareness, together with the dialogue and debate, will generate possible solutions to the challenges.

Additionally, the project aims to raise awareness of the importance of business continuity planning and risk

management practices among small businesses. The American Red Cross emphasizes that, "...while reports vary, as many as 40% of small businesses do not reopen after a major disaster like a flood, tornado, or earthquake."⁵ This paper will also address the need for small businesses to undertake essential risk management and disaster planning to improve the odds of survival in the wake of natural and man-made catastrophes as well as day-to-day accidents.

Travelers is one of the largest property casualty insurers of small businesses in the United States, and its policies are distributed primarily through independent agencies, which are also generally small businesses. Through this small business advocacy project, the company seeks to understand and support the needs of its small business customers and agents and promote their prosperity.

To further this public policy initiative, the Travelers Institute is hosting a series of symposia across the country to promote awareness of the importance of small business; facilitate a dialogue and encourage debate which may identify and propose alternatives to some of the regulations that are overly burdensome and impact small business growth; and raise awareness of the importance of risk management and disaster preparedness to small business viability.

To better identify the specific challenges small business owners face today, the Travelers Institute conducted a national phone survey of more than 600 small business owners, all of which employ fewer than 50 people. Among other questions, participants were asked to rank and comment on the impact of existing government regulations at the federal, state, and local levels.

Highlights of the findings include:

- More than 50% of respondents felt that small businesses were more heavily impacted by government regulation than big businesses.
- According to respondents, federal and state government contributed in equal measure, most heavily to regulatory burdens. Local and county government created fewer obstacles.
- Tax-related regulations rated as the most difficult with which to comply, followed by healthcare mandates and operational requirements, such as licensing, permitting, and inspections.

Regulation and Small Business

Regulations at state and federal levels challenge the success and growth of America’s small businesses. A recent report by the U.S. Small Business Administration (SBA) pegs total small business regulatory costs at \$1.75 trillion at the federal level.⁶ Further, in the four years studied by SBA, the cost of complying with federal regulation rose twice as fast as the cost of health insurance coverage.⁷

The SBA study found that small businesses shoulder regulatory costs that are 36% greater per employee than their larger competitors.⁸ Firms with fewer than 20 employees spend \$10,585 per employee per year while firms with 500 or more employees spend \$7,755 per employee per year to comply with federal regulations.⁹ The cost disparity between large and small businesses is seen in exhibit 2.

The SBA study did not calculate the cost of state or local regulations on small firms. A ranking of the states based on the policy environments for entrepreneurs, as compiled by the Small Business and Entrepreneurship Council, can be seen in exhibit 3. A 2007 California study calculated a cost of state regulatory compliance per small business of more than \$134,000 annually for the 3.7 million small businesses in that state.¹⁰ This implies a cost of \$13,800 per California households for compliance by California-based small businesses with state regulations – just another way to put the magnitude of the burden in context. The study also reported that “the cost of regulation results in an employment loss of 3.8 million jobs which is a tenth of the State’s population.”¹¹ We encourage other states to examine the cost of complying with their regulations as California did.

Overall, regulatory compliance costs place small businesses at a competitive disadvantage relative to large businesses, hampering their ability to grow, create jobs, reinvest in their operations, and prosper. The impact of government regulation on job creation, as reported by Travelers Institute survey respondents, is shown in exhibit 4. In order to level the playing field and unleash the economic power of small business growth, policymakers would be well advised to incorporate small business concerns when designing and implementing regulations.

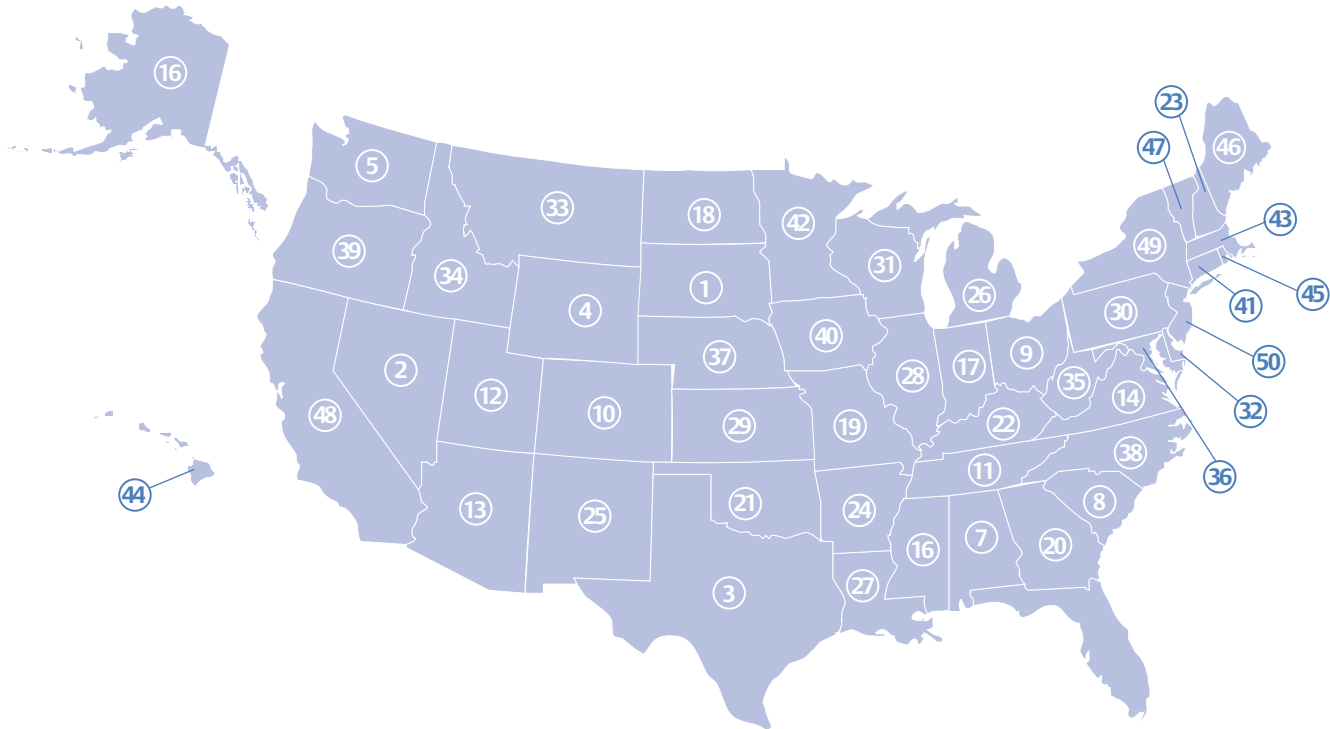
Exhibit 2: Distribution of regulatory compliance costs by firm size in 2008 – cost per employee

Type of Federal Regulation	All Firms	Firms with <20 Employees	Firms with 20-499 Employees	Firms with 500+ Employees
All Federal Regulations	\$8,086	\$10,585	\$7,454	\$7,755
Economic	\$5,153	\$4,120	\$4,750	\$5,835
Environmental	\$1,523	\$4,101	\$1,294	\$883
Tax Compliance	\$800	\$1,584	\$760	\$517
Occupational Safety and Health, and Homeland Security	\$610	\$781	\$650	\$520

Nicole V. Crain and W. Mark Crain for SBA Office of Advocacy, *The Impact of Regulatory Costs on Small Firms*, Table 1. Distribution of Regulatory Compliance Costs by Firm Size in 2008 (September 2010)

Exhibit 3: Small business survival index 2010: state rankings*

(Ranked from the friendliest to the least friendly policy environments for entrepreneurship)



1	South Dakota	18	North Dakota	35	West Virginia
2	Nevada	19	Missouri	36	Maryland
3	Texas	20	Georgia	37	Nebraska
4	Wyoming	21	Oklahoma	38	North Carolina
5	Washington	22	Kentucky	39	Oregon
6	Florida	23	New Hampshire	40	Iowa
7	Alabama	24	Arkansas	41	Connecticut
8	South Carolina	25	New Mexico	42	Minnesota
9	Ohio	26	Michigan	43	Massachusetts
10	Colorado	27	Louisiana	44	Hawaii
11	Tennessee	28	Illinois	45	Rhode Island
12	Utah	29	Kansas	46	Maine
13	Arizona	30	Pennsylvania	47	Vermont
14	Virginia	31	Wisconsin	48	California
15	Alaska	32	Delaware	49	New York
16	Mississippi	33	Montana	50	New Jersey
17	Indiana	34	Idaho	51	Dist. of Columbia

* Please note that the District of Columbia was not included in the studies on the state tort costs, eminent domain legislation and highway cost efficiency.

Raymond J. Keating, Small Business and Entrepreneurship Council, Small Business Survival Index 2010, available at <http://www.sbecouncil.org/survivalindex2010/> (December 2010)

Exhibit 4: To what extent has government regulation impacted your ability to create jobs?

Hire new employees or create new positions in your company?



Retain existing employees?



■ Don't Know ■ Negative Impact ■ Mixed ■ Positive Impact

Grow and expand your business?



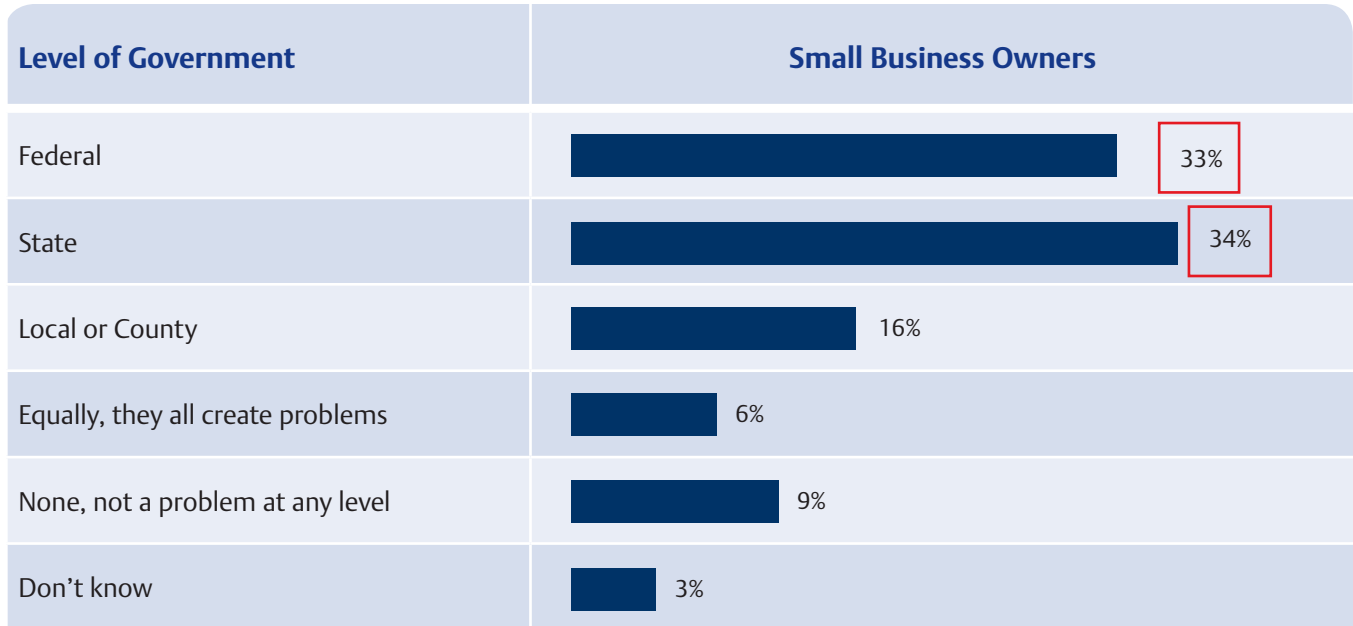
Based on responses to a 7 point scale where 1=strong negative impact and 7=strong positive impact.
(Negative Impact = 1-2 ratings, Mixed = 3-5 ratings, Positive Impact = 6-7 ratings)

March 2011 Travelers Institute national survey of small business owners



Joan Woodward, head of the Travelers Institute, greets attendees at the first Travelers Institute small business symposium in Morristown, New Jersey

Exhibit 5: Which level of government creates the most regulatory burden for your business?



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Small Business Advocacy: Awareness, Dialogue, and Debate Matter

Examining the impact of regulation on economic growth and job creation is not an idea unique to today's environment. The degree of regulatory burden created by the branches of government, as reported by Travelers Institute survey respondents, is shown in exhibit 5. Over the years, various initiatives have spurred local, state, and federal agencies to review, update, streamline, or eliminate regulations that had been deemed overly burdensome - demonstrating awareness makes a difference.

Vice President Al Gore's "Reinventing Government" initiative motivated federal agency staff to identify ways for government to become more consumer-friendly. That effort, combined with President Bill Clinton's Executive Order 12866, resulted in a review of 422 federal regulations, 40% of them targeting burden reductions.¹²

President George W. Bush launched a regulatory reform initiative that asked the public for suggestions. In its first year of the initiative, the White House received 71 ideas, and during the second year businesses suggested more than 300 reforms.¹³ Small businesses within the travel and tourism industry took advantage of the reform mindset and prompted the U.S. Department of Transportation to deregulate computerized reservation systems.¹⁴ Small businesses insisted that the antiquated system was cemented in place by volumes of bureaucratic red tape and allowed airline-owned conglomerates to control ticket prices. The U.S. Department of Transportation announced its deregulatory action in January 2004 which allowed small travel agencies and consumers to access low fares and deal directly with airlines and carriers. The American Society of Travel Agents estimated savings of \$438 million annually.

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“Sometimes, those rules have gotten out of balance, placing unreasonable burdens on business - burdens that have stifled innovation and have had a chilling effect on growth and jobs.”¹⁶

Many of these efforts are facilitated by the Office of Advocacy within the SBA. The office oversees the Regulatory Flexibility Act, which requires federal agencies to incorporate cost-saving measures for small business before finalizing rules. The Act also requires agencies to review their rules on an annual basis.¹⁷

While the federal government has a process to consider regulatory reforms, the advocacy effort begins with direct small business input. For example, with the help of the SBA Office of Advocacy, gas station owners pointed out that they were required to fill out federal paperwork annually to document that they have gasoline on their premises. The purpose of the report, according to the U.S. Environmental Protection Agency (EPA), was to inform local fire stations and emergency response officials about the location of hazardous substances. Thanks to the vigilance of small business owners, the EPA realized the annual report was unnecessary. As a result, the EPA removed the paperwork requirement. The 15 minutes per year saved for a gas station owner does not seem like a big deal. However, when those savings were distributed across approximately 200,000 gas stations, it amounted to \$16 million of efficiency.¹⁸

Small business owners and accountants who service the small business community often come up with constructive ideas to reform tax rules. One reform enabled 500,000 small businesses to file the simpler Form 1040, Schedule C-EZ instead of the regular Schedule C.¹⁹ The IRS agreed to address the problem by doubling the revenue threshold for using the easier forms from \$2,500 to \$5,000. Another reform helped small businesses with fewer than nine employees by eliminating quarterly Federal Unemployment Tax Act (FUTA) deposits. By changing the requirement for the FUTA tax from quarterly to annually, the IRS freed up cash flow for 4 million small businesses.²⁰



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Get licenses, permits, certifications

MAKE PAYMENTS
Pay for violations & settlements

INCENTIVES ESTIMATOR
See if your business qualifies

CHECK STATUSES
Look up property jobs & info, more...

MY ACCOUNT
View your saved info & scenarios

PLAN & START OPERATE & EXPAND

SIGN IN

Email Address:

Password:

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DID YOU KNOW?

Business Owner's Bill of Rights-
As part of New York City's commitment to provide New Yorkers with excellent customer service, the Mayor's Office has released a [Business Owner's Bill of Rights](#). The Business Owner's Bill of Rights ensures that business owners are provided with prompt, efficient, and easily accessible service, including routine Agency inspections.

About NYC Business Express-
NYC Business Express is a one-stop website that makes starting, operating, and expanding a business in New York City clearer, faster, and simpler. A Mayoral initiative launched in 2006, NYC Business Express provides business owners and entrepreneurs the information they need to get started, as well as the opportunity to grow their businesses.

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Established in 2005 by Mayor Michael Bloomberg, NYC Business Solutions is a set of free services offered by the Department of Small Business Services. There are more than six NYC Business Solutions Centers throughout the city's five boroughs, offering:

- Business Courses
- Legal Assistance
- Financing Assistance
- Assistance Accessing Incentives
- Assistance Navigating Government
- Recruitment Information
- Training for Employees
- Assistance Registering as a Government Contractor
- Certification Assistance

According to the organization, every year more than 5,000 entrepreneurs take the business courses and learn about starting, operating, and expanding their businesses, while more than 550 companies get assistance resolving government-related issues and learn how to comply with government regulations.

On a federal level, there are several programs designed to provide regulatory compliance advice for small business. The SBA administers Business.gov, which directs small business owners to various government forms and information to answer frequently asked questions.²¹ SBA also supports SCORE, which is a group of current business owners and retired executives who offer advice online and by phone. SCORE has 350 chapters throughout the United States, with 13,000 volunteers nationwide.²² Lastly, the Small Business Development Centers (SBDC) program is the federal government's largest management and technical assistance program for small businesses.²³

Calls for regulatory relief are also occurring throughout state and local governments. The Institute for Justice captured the struggles of entrepreneurs who battled against burdensome regulatory systems in eight cities.²⁴ Bureaucratic mazes of permitting and licensing requirements were a common challenge for small business owners in Chicago, Houston, Philadelphia, Los Angeles, Miami, Milwaukee, Newark, and the District of Columbia.²⁵ The Institute for Justice questioned the utility of mandatory occupational licensing, citing lack of proof that such requirements improve public safety.²⁶ It also recommended significant reforms at the city, county, and state levels to reduce regulatory barriers that stifle small business growth and job creation.

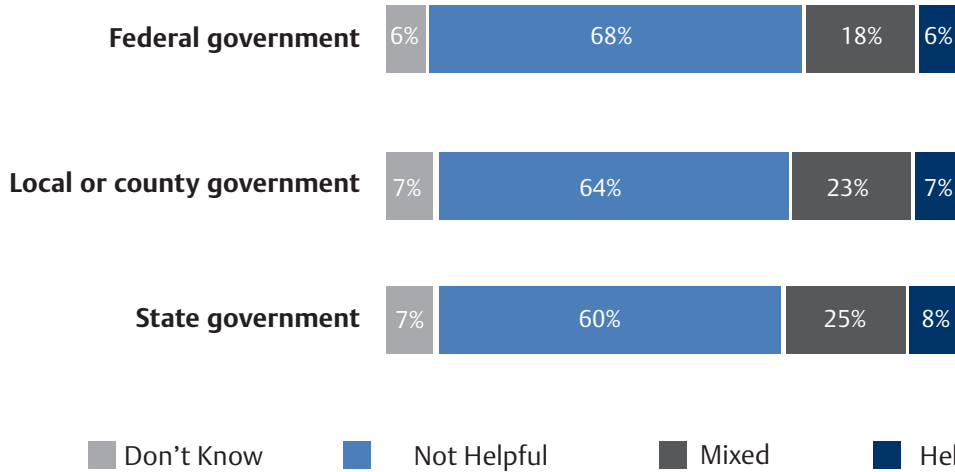
Beyond the text of rules and regulations lies the power of government officials to either encourage the small business owner, or to crush an entrepreneur's dreams. The degree of government helpfulness in getting businesses up and running, as reported by Travelers Institute survey respondents, is shown in exhibits 6 and 7. The Institute for Justice's reports on the small business environment in several cities described the impact of councilmen, aldermen, and city permit officials. The Philadelphia study noted: "Philadelphia's government is ruled, at a very basic level, by a culture of 'no.' Entrepreneurs are told, at every turn, that they may not do anything without some government official's permission. And that permission is rarely forthcoming, and sometimes flatly impossible to obtain."²⁷ Public policy and the attitude of regulators should be rooted in customer service, for example, "How can we help your business launch, survive, and thrive?"

Some officials have clearly gotten the message. Several states benefit from a small business ombudsman or a small business office close to the governor that can breathe some common sense into the regulatory process. In some states the lieutenant governor fills that role.

Examples of initiatives at the state and local levels include:

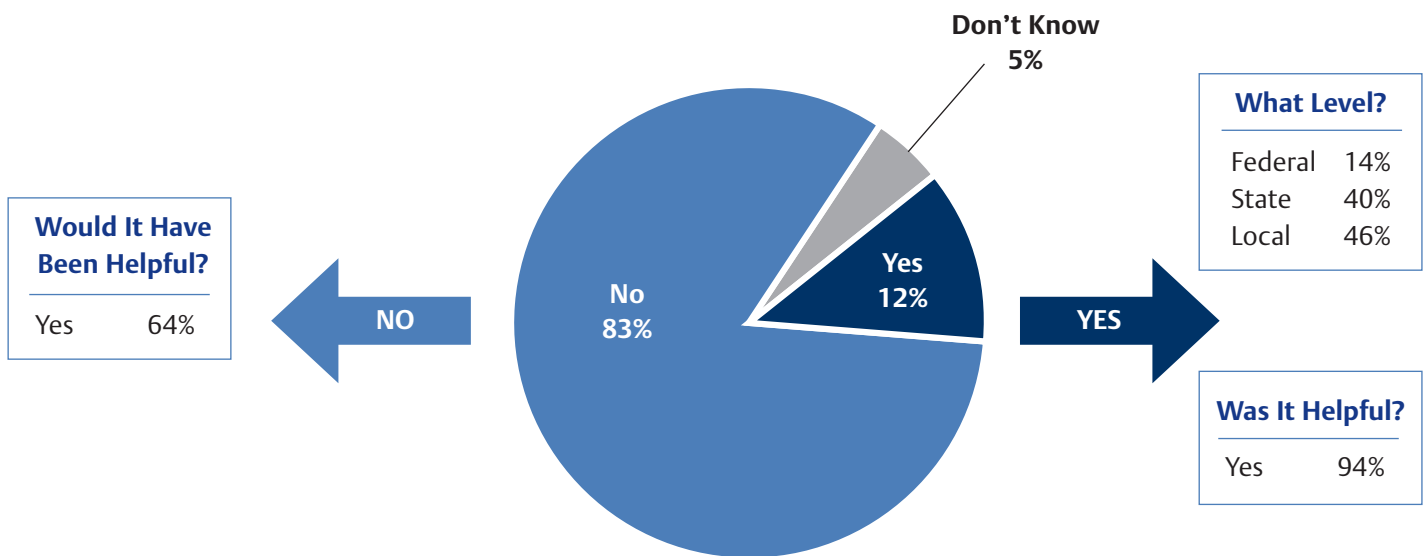
- Governor John Kasich, in one of his first official acts as governor, was to put Ohio's Lieutenant Governor, Mary Taylor, in charge of his Common Sense Initiative, an effort to streamline business regulations that hamper small business growth.²⁸
- Governor Chris Christie has a similar initiative in New Jersey to promote common sense regulation and to weed out burdensome regulations through the bipartisan Red Tape Review Commission.
- In Arkansas, a board that oversees elevator safety consulted with small businesses before updating the licensing requirements for elevator mechanics. Thanks to small business input, the Elevator Safety Board decided that mechanics who install wheelchair lifts should not be required to undergo the licensing and training required for mechanics who install commercial elevators in high-rise buildings.²⁹
- In Massachusetts, a small ice cream parlor wanted to distribute ice cream to shops in New England, but could not afford the refrigerated vehicle requirements written into health safety regulations. The regulatory agency listened and agreed that as long as the food was kept frozen, the regulatory requirement would be satisfied.³⁰ Thanks to a regulator's willingness to be flexible, the small business owner did not have to pay \$50,000 for a refrigerated vehicle. Instead, he was able to transport the ice cream using a refrigerator unit on his own truck.³¹
- Leaders in New York City created the NYC Business Express, an online, one-stop resource dedicated to helping startups comply with the requirements of more than 20 city agencies.³² On the site, entrepreneurs can find a comprehensive list of requirements tailored to the details of their business and can file for licenses, permits, and incentives and even make payments online. A "wizard" guides users through the process. The success of the site, with more than 22,000 subscribers in just five years, has led other cities to follow the trend for one-stop shopping for startups.
- New York City's Mayor Michael Bloomberg is pushing the one-stop-shop concept for compliance assistance beyond the Internet, creating store-front centers to help entrepreneurs figure out what they need to do to start or expand their businesses. Called NYC Business Solutions, the project operates more than six centers offering assistance in planning, financing, marketing, legal services, and training.³³ Mayor Bloomberg is also piloting a compliance center targeted specifically at helping startup restaurants in New York City.

Exhibit 6: How helpful was the government when you started your business?



Based on responses to a 7 point scale, where 1=not at all helpful and 7=extremely helpful.
 (Not Helpful = 1-2 ratings, Mixed = 3-5 ratings, Helpful = 6-7 ratings)

Exhibit 7: Did the government offer you a single point of contact to deal with business startup regulatory requirements?



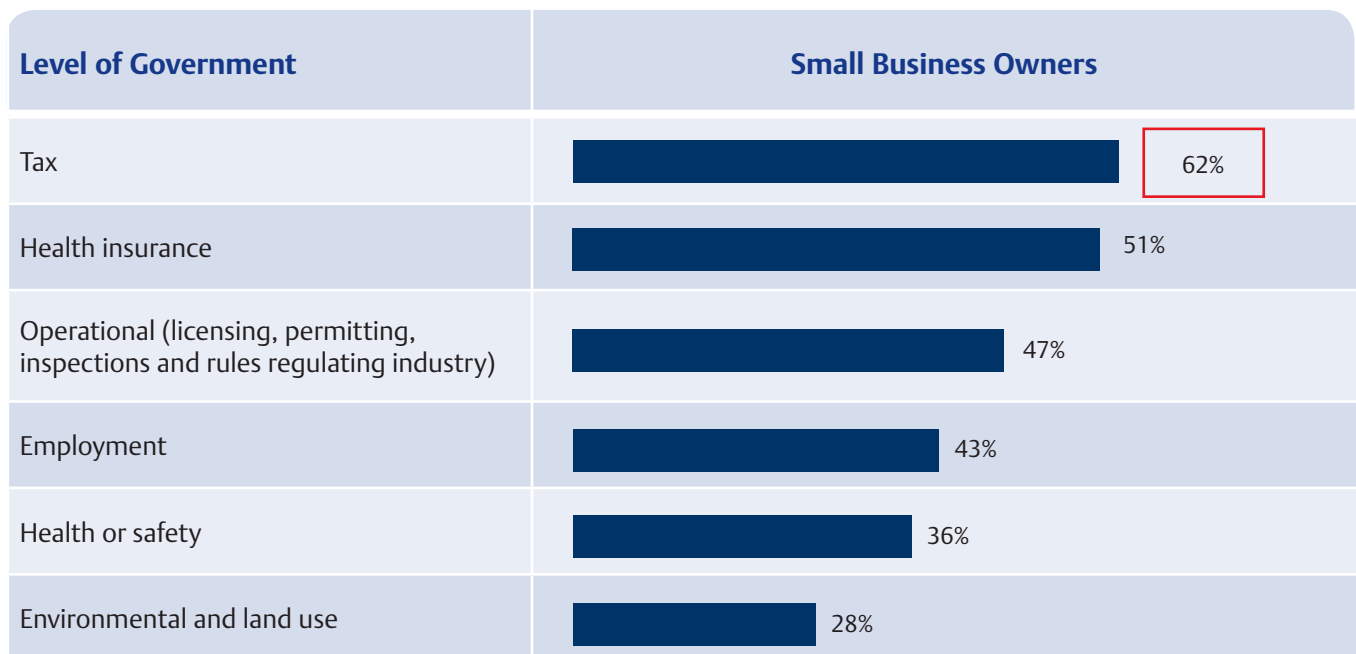
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Specific Issue Areas

With regard to paperwork requirements, in 2009 the public spent an estimated 9.8 billion hours responding to federal information collections.³⁴ While that number covers both individuals and businesses, it gives us some idea of the enormity of the paperwork burden confronting entrepreneurs. The National Federation of Independent Business (NFIB) research foundation concluded that the cost of regulatory paperwork averages \$48.72 per hour.³⁵ Licensing and permits account for more than half of those costs, with invoices, storage of tax forms, and customer data rounding out the rest of the burden.³⁶

Regulations and recordkeeping requirements seek to achieve many laudable goals, such as workplace safety, environmental protection, border security, and the integrity of the financial markets. However, the number of filings required by government agencies continues to mount. In 1976, the Federal Register (a government publication that lists regulatory announcements) reported there were 12,589 pages of final rules issued that year by the federal government. By 2001, the page number for final rules had almost doubled.³⁷ The Competitive Enterprise Institute estimates there are an average of 4,000 new federal regulations per year.³⁸ An effort in reform in this area, with the cooperation of both small businesses and regulatory officials, could have a meaningful impact on the ability of small businesses to grow and prosper. The regulations creating the most difficulty for small business owners, as reported by Travelers Institute survey respondents, are shown in exhibit 8.

Exhibit 8: Which regulations create the most difficulty for your business today?



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Environmental Regulations

Requirements for tracking solvents and lubricants and managing material coming in and out of a small business can be overwhelming. Compliance with environmental regulations is much more expensive per employee at small firms than at larger companies. The cost per employee for complying with environmental regulations at firms with fewer than 20 employees is \$4,101 per year.³⁹ That is four times greater than the \$883 per year per employee at businesses with 500 or more employees.⁴⁰

The cost of environmental regulations for small business is of even greater concern when you factor in how those regulations impact the cost of energy. New requirements imposed on utilities and the oil and gas sector translate into higher electricity, transportation, and operational expenses for small businesses. Energy bills are one of the top three expenditures for small businesses (only payroll and materials are higher).⁴¹ When small firms face a spike in energy prices, they are not able to adjust the price of their goods and services quickly enough to match the cost increases.⁴²

The tremendous volume of regulations, standards, and paperwork requirements for tracking and managing environmental issues presents an opportunity for reform. Small businesses are uniquely positioned to advise local, state, and federal officials on what regulations may be duplicative, outdated, or unnecessary.

Labor / Workforce Regulations

Employees are a small business owner's greatest asset. Businesses with fewer than five employees make up the largest percentage of employer firms in the United States.⁴³ When each employee makes up 25% or more of the firm's workforce, it is easy to understand why small business owners believe they look after their workers better than the federal or state officials who write regulations on wage rates, benefit levels, unemployment insurance, workplace safety, family leave, and the rules governing the hiring and firing of workers.

Small business owners would like state and federal labor officials to better understand the unique employment model at small firms before imposing one-size-fits-all standards that add layers of state and federal paperwork and bureaucracy. For example, unemployment insurance requirements and Davis-Bacon wage thresholds for public works contracts that may be appropriate at large operations may not be relevant for small businesses.



Health Insurance

According to the NFIB Research Foundation, the cost of health insurance has ranked as the top concern of small business owners for more than two decades.⁴⁴ In our recent small business survey at the Travelers Institute this year, health insurance ranked second to tax issues as being top of mind for business owners. From 1999 to 2008, health insurance costs for small businesses rose 129%. These huge increases have forced some small business owners to terminate their employee health plans while preventing others from instituting them in the first place.⁴⁵ The impact of new requirements in the 2010 healthcare law – especially the one mandating that businesses with more than 50 employees provide healthcare – has been hotly debated in political and economic arenas.

Concerns on the part of small businesses regarding health care costs cannot be solely attributed to the 2010 law. Small business owners typically buy health insurance in the small group market (defined as 2-50 employees), and small business pays about 18% more per individual for health insurance compared with similar plans available in the large employer market.⁴⁶ The Council for Affordable Health Insurance has examined the impact of state health insurance coverage mandates on premiums. Depending on the state, number of mandates, base premium and type of policy, mandated coverage of certain treatments can boost the cost of a policy between 10 and 50%.⁴⁷ The tax treatment of health insurance produces a substantial penalty for small firms. The self-employed and those business owners who purchase health insurance on the individual market cannot take advantage of paying for their insurance with pre-tax dollars the way corporate-purchased plans can. As a result of this uneven tax treatment, individuals and the self-employed spend on average \$1,500 more per year on insurance.⁴⁸

One success in the small business advocacy effort to secure affordable health care options was the establishment of Health Savings Accounts (HSAs). HSAs are savings accounts linked to high-deductible health insurance plans. HSAs allow small employers to offer a health insurance option with tax advantages for the business and for the insured. While the value of HSAs as a choice for small employers has been established, annual contribution limits and equal tax treatment of HSAs by state tax laws continue to be debated.



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Tax Regulations

In our recent small business survey at the Travelers Institute this year, more than 60% of survey respondents stated that tax-related regulations create compliance difficulties. The tax code has four times more words than the Bible, and tax compliance costs on American small businesses total \$18 billion to \$19 billion annually.⁴⁹ Estimated costs of compliance with the federal tax code, as reported by the SBA Office of Advocacy, are shown in exhibit 9.

Keeping up with phase-ins, phase-outs, deductions, credits, depreciation, amortization, and other components of tax preparation is a headache even for the most experienced accountants and tax preparers. More than 88% of small businesses rely on tax preparers to file their annual returns.⁵⁰ However, even when they hire a tax preparer, the perpetual process of accumulating, assembling, and reviewing the requires a substantial investment. Firms with fewer than 20 employees spend \$1,584 per employee every year to comply with federal tax requirements.⁵¹ That is three times higher than the cost per employee for large firms.

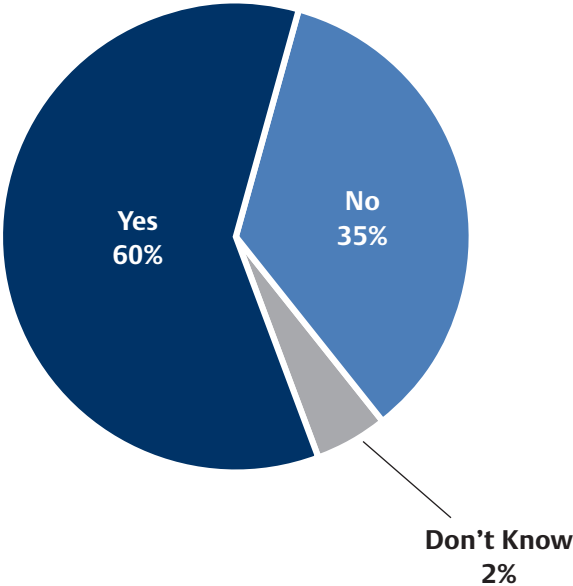
Exhibit 9: Sources and estimated costs of compliance with the federal tax code

	Businesses	Individuals & Nonprofits	Total
# Hours Required to Comply	2,280,966,382	2,018,119,637	4,299,086,018
Compliance Cost per Hour (in 2009 \$)	\$ 49.77	\$ 31.53	
Total Compliance Cost (in 2009 \$)	\$95,984,291,402	\$ 63,635,262,186	\$ 159,619,553,588
Share of Total Compliance Cost	60%	40%	

Nicole V. Crain and W. Mark Crain for SBA Office of Advocacy, The Impact of Regulatory Costs on Small Firms, Table 4. Sources and Estimated Costs of Compliance with the Federal Tax Code (September 2010)

Small business is not only challenged by an unwieldy tax code. When policymakers discuss the economic stimulus effect of lowering corporate tax rates, they often forget that 75% of small business owners pay their business tax at individual rates, not at the corporate rate.⁵² High tax rates directly impact small businesses' cash flow (money used to pay everyday expenses like wages, electricity, transportation, and benefits). The more a business pays in taxes at local, state, and federal levels, the less money the business has to pay employees, keep the business running, and plow back into the business and eventually add jobs. The impact a payroll tax holiday of the employer's share of payroll taxes would have on hiring for Travelers Institute survey respondents is shown in exhibit 10.

Exhibit 10: Would you hire additional employees if the government were to pass a three-year tax holiday reducing your share of payroll taxes?



March 2011 Travelers Institute national survey of small business owners

Risk Management and Small Business

According to a survey conducted by Travelers Select Accounts, the company's small business division, risk management ranks relatively low among priorities facing small business owners. The survey, which sampled more than 100 small business owners at the U.S. Chamber of Commerce America's Small Business Summit on May 17 and May 18, 2010, found that small business owners prioritize activities related to growing their business over those related to protecting their business against insurable risk. Further, almost half of the respondents are operating without a Business Continuity Plan, the first step in protecting viability after a catastrophe. As noted before, The American Red Cross emphasizes that, "while reports vary, as many as 40% of small businesses do not reopen after a major disaster like a flood, tornado, or earthquake."⁵³ Additionally, relatively few small business owners consult their insurance agent for guidance and advice on identifying and managing risk.

If small business jobs are to be preserved in the wake of natural disasters, man-made catastrophes, and day-to-day accidents, it is important for small business owners to understand the risks they face in their daily operations as well as in the event of a major disaster. Once they understand the risks they face, they need to adopt proper risk management practices and create a business continuity plan. Travelers maintains that an effective risk control program includes:

- involving employees;
- analyzing the worksite for hazardous conditions and behaviors;
- preventing and controlling those hazards;
- providing safety and health training to supervisors and employees;
- implementing measures that monitor progress and help reinforce safety.

Many resources exist for business owners looking for assistance creating a Business Continuity Plan. In addition to turning to an insurance agent or carrier, the Institute for Business and Home Safety, FEMA, and Homeland Security all provide guides for developing comprehensive plans. Links to these resources can be found on the Travelers Risk Control website, <http://www.travelers.com/business-insurance/risk-control/protecting-your-business>.



Principles for Small Business Advocacy

Business owners, advocates, academic experts, and public officials have joined the discussion on how to promote the success of America's small businesses. With the increased attention from the President and other key leaders on the issue, there is an opportunity to implement new concepts and solutions for small business challenges. The Travelers Institute has outlined a set of principles. These are offered in the hope of enhancing the interaction between government and small businesses to support economic growth and job creation. In our view, the regulatory process should effectively take into account the impact of regulation on the viability of small businesses.

This list of principles is not intended to be exhaustive or to limit the public policy discourse. Rather, it is designed to prompt suggestions from small business owners and employees, advocates, experts, public officials, and the public at large on how to address the challenges faced by the small business sector, which is such a key contributor to our local, state, and federal economies.

Principles for Small Business Advocacy

- 1. Raising awareness and appreciation of the importance of small business to national and local economies is critical.** Awareness, dialogue, and debate are fundamental to identifying and pursuing opportunities for promoting the prosperity of small business.
- 2. Legislative bodies and other policymakers should be charged with reviewing proposed and existing rules for their impact on small business operations.** Recommendations for less burdensome alternatives should be encouraged and considered for all regulatory proposals.
- 3. Risk management and business continuity planning are essential elements to small business survival.** A coordinated public-private effort is essential to raising awareness of practices to improve small business resiliency and recovery after business interruption or disaster.



Participants in the first Travelers Institute small business symposium in Morristown, New Jersey

The first in a series of national symposia focused on promoting small business awareness, advocacy, and opportunities was held in Morristown, New Jersey, on March 15, 2011. The panel discussion brought together business, government and community leaders to discuss the promotion of job creation, the impact of burdensome regulations, and economic growth as well as the importance of disaster planning and risk management for small businesses. Moderated by Joan Woodward, head of the Travelers Institute, participants included:

- Liz Allen, Executive Vice President, Rue Insurance
- Paul Boudreau, President, Morris County Chamber of Commerce
- Assemblyman Anthony M. Bucco, New Jersey General Assembly, District 25
- Donna Childs, CEO of Childs Capital and author of “Prepare for the Worst, Plan for the Best”
- Steve Liberti, President & Owner, Harbor Freight Transport Corporation
- Elizabeth Mackay, Senior Policy Advisor to the Lieutenant Governor at New Jersey Department of State
- Marc Schmittlein, Travelers President and CEO, Select Accounts & Agribusiness
- Robert Brody, Senior Vice President, Risk Control, Travelers

The necessity of coordination was the primary take away from the discussion. Participants agreed that the burden of regulatory compliance can be alleviated through increased coordination and elimination of redundancies at the federal, state and local level and development of “one stop shops” – one location for facilitating business startups and regulatory compliance. The group agreed risk management and mitigation are key activities all small business owners need to apply in their everyday operations. They encouraged small business owners to coordinate guidance from their accountants, lawyers and insurance agents to ensure all aspects of their operations are properly protected.

Travelers Institute Mission Statement

The Travelers Companies, Inc. established the Travelers Institute in June, 2009 as a means of participating in public policy dialogue on matters of interest to the property casualty insurance sector, as well as the financial services industry more broadly.

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To Learn More

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The Travelers Institute, the public policy division of The Travelers Companies, Inc., engages in discussion and analysis of public policy topics of importance to the insurance marketplace and the financial services industry. The Travelers Institute draws upon the industry expertise of Travelers' senior management and the technical expertise of many of Travelers' underwriters, risk managers and other experts to provide information and analysis to public policy makers and regulators. Based in Washington, D.C., the Travelers Institute is led by Joan Woodward, Executive Vice President of Public Policy.

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- Thomas M. Sullivan works in the Washington office of Nelson Mullins Riley & Scarborough. Mr. Sullivan currently runs the Small Business Coalition for Regulatory Relief, and he served as the Chief Counsel for Advocacy in the Small Business Administration's Office of Advocacy from 2002-2008.
- Timothy R. Campbell is a public policy consultant. He served over 30 years in various government relations positions in the insurance and financial services industry. He retired from Travelers in 2009.

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