

Definition of "Small Business"

By: Heather Poole, Associate Analyst
December 08, 2017 | 2017-R-0284

Issue

What is the definition of “small business”?

Summary

There is no standard definition of small business. The federal Small Business Administration (SBA) develops small business “size standards,” which apply to federal law, state and private programs that receive federal funding, and many other state and private programs that adopt the standards. However, most small business-related Connecticut laws use their own definitions of small business, which vary considerably.

Although definitions of small business vary, they are all based on one or more of the following criteria: (1) number of employees, (2) annual revenue, or (3) ownership (e.g., whether the business is independently owned).

Federal Definition

Under the federal Small Business Act, a small business is (1) independently owned and operated and (2) not dominant in its field of operation ([15 USC § 632](#)). The act requires SBA to establish standards to determine whether a business meets this definition and requires those standards to reflect differences between industries. The SBA has established a size standard for each industry listed in the North American Industry Classification System (NAICS), which indicates the largest a business can be, generally based on either average annual revenue or average employment, to be considered a “small business” under federal law ([13 CFR § 121](#)).

In developing the standards, SBA considers economic characteristics comprising the structure of an industry, including degree of competition, average firm size, start-up costs, entry barriers, and distribution of firms by size. It also considers technological changes, competition from other industries, growth trends, historical activity within an industry, unique factors occurring in the industry which may distinguish small firms from other firms, and the objectives of its programs and the impact on those programs of different size standard levels. Table 1 provides examples of SBA size standards, and a full list of standards may be found [here](#).

Table 1: Examples of SBA Size Standards for Select Industries

Industry	Revenue (\$M)	Employment
Retail		
New Car Dealers		200
Used Car Dealers	25.0	
Supermarkets	32.5	
Convenience Stores	29.5	
Hardware Stores	7.5	
Manufacturing		
Aircraft Engine Manufacturing		1,500
Pharmaceutical Manufacturing		1,250
Explosives Manufacturing		500
Iron and Steel Forging		750
Computer Manufacturing		1,000
Professional Services		
Engineering Services (general)	15.0	
Aerospace Equipment Engineering	38.5	
R&D, Engineering and Physical Sciences (general)		1,000
R&D in Aircraft Engines		1,500
Lawyer's Offices	11.0	

Several programs operating in Connecticut use the federal size standards including, for example, (1) small business development centers, (2) a small business microloan program, and (3) the veteran-owned small businesses registry maintained by the Department of Economic and Community Development.

State Definitions

Table 2 briefly summarizes the definitions of “small business” under state law. The first definition applies under the Uniform Administrative Procedure Act (UAPA) when agencies analyze how proposed regulations impact small businesses (i.e., “regulatory flexibility analyses”). The others

apply to various Connecticut programs that impact small businesses. Although the list is not exhaustive, it illustrates how much the definitions vary. The table does not include program eligibility criteria unrelated to size (e.g., requirements that a business is current on its state and local taxes or located in Connecticut).

Table 2: Selected Definitions of Small Business in Connecticut Law

Subject	Definition of Small Business
Regulations affecting small business (UAPA regulatory flexibility analyses) (CGS § 4-168a , as amended by PA 16-32)	A business entity, including its affiliates, that is (1) independently owned and operated and (2) has fewer than 250 full-time employees or has gross annual sales under \$5 million, except that in adopting its regulations, an agency may define small business to include up to the lesser of 500 full-time employees or the applicable federal standard to meet small business needs.
State set-aside program for small contractors and minority business enterprises (CGS § 4a-60g)	A small contractor (also called a small business enterprise (SBE) that (1) had gross revenues not exceeding \$15 million in the most recently completed fiscal year and (2) is independent.
Research and development (R&D) tax credit program (<i>small businesses qualify for a tentative credit of 6% for all of their R&D spending</i>) (CGS § 12-217n)	A business with gross income for the previous income year of \$100 million or less
Small Business Job Creation Tax Credit Program (CGS § 12-217nn)	A business that employs fewer than 50 employees in the state on the date of its tax credit application
Subsidized Training and Employment Program (CGS § 31-3pp)	A business that employed 100 or fewer employees on at least 50% of its working days during the preceding 12 months.
Individual Development Accounts (<i>accounts can be used for small business creation and development, among other things</i>) (CGS § 31-51ww , as amended by PA 16-32)	A business that (1) is independently owned and operated and (2) has fewer than 75 full-time employees or has gross annual sales of less than \$5 million.
Small Business Express Program (<i>provides grants and loans to eligible small businesses</i>) (CGS § 32-7g)	A business with operations in Connecticut that employs, on at least 50 % of its working days during the preceding 12 months, 100 people or fewer

HP:tjo