Small Businesses Matter

A BIPARTISAN POLICY AGENDA FOR 2024 AND BEYOND

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Supporting the 'Backbone' of the Economy

Supporting small businesses has long been a bipartisan priority. Small businesses are in every congressional district and community, and their contributions to employment, economic growth, and innovation make their establishment and growth a national priority.

Policymaking to support small businesses is challenging due in part to their diversity. The millions of small businesses that constitute the economy's "backbone" are not a monolith. They differ in *size* (sole proprietor to hundreds of employees), *age* (new to decades old), *industry* (service to manufacturing), *location* (rural to urban, coastal to plains), *customer base* (direct to consumer, supplier to big business, government contractor), *growth ambitions* (transitioning from home-based to storefront to joining public markets), *owner demographics* (race, ethnicity, gender, socioeconomic status), and more.

Policies that support small businesses should be similarly expansive. A small business policy agenda too narrowly conceived will inevitably miss some businesses and create gaps in support. Although the Small Business Administration (SBA) is the locus of a good deal of small business support, policymakers must also look beyond this agency. All small businesses wrestle with the complexities of the tax code; those with workers must also navigate complex employment and employee benefits laws. A policy agenda to support small businesses must address these and other areas in addition to SBA programs designed, for example, to expand access to capital or public procurement.

This report draws on insights from a variety of BPC projects to articulate a small business agenda that includes some reforms to SBA programs but also goes beyond the agency's scope to other areas of policy that matter to small businesses.[a] Developed to prioritize policy that makes a difference to a range of small businesses and about which bipartisan agreement can be built in an election year and beyond, the agenda articulates principles to guide federal policy action in four core areas: access to capital, public procurement, growth, and workforce.

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a See BPC's 2023 report *Small Agency, Big Mandate: A Bipartisan Road Map to Modernizing SBA* for a discussion of SBA reforms: https://bipartisanpolicy.org/report/modernizing-sba/.

In offering principles for policymaking, the agenda orients lawmakers toward several small business priorities. Bills highlighted in each section illustrate how lawmakers are finding common ground to implement the principles, although additional solutions exist and are needed. Following the principles is a first step toward robustly supporting the diversity of American small businesses.

"WE NEED ALL OUR GREAT FOUNDERS, FROM EVERYWHERE AND ANYWHERE, WITH GREAT IDEAS TO BE ABLE TO POWER THIS ECONOMY AND MAINTAIN OUR GLOBAL COMPETITIVENESS."

- ISABEL CASILLAS GUZMAN, SBA ADMINISTRATOR[b]

Meeting Small Businesses' Capital Needs

Talk to any small business owner about their challenges, and access to capital—whether credit or equity—is likely to be at the top of the list. Small businesses need capital to meet operating expenses and fuel business growth, among other things, yet access to capital is uneven. New small businesses have a harder time accessing credit than more established small businesses. Businesses owned by women and people of color face additional barriers to getting the capital their businesses need.[1]

Qualifying for credit or securing equity investment is one challenge. Being able to afford the cost of capital is another. With the Federal Reserve working to reduce inflation in the post-COVID-19 pandemic economy, lending costs have grown as interest rates have risen. One recent survey of small business owners found that 77% were concerned about their ability to access capital, with more than half saying they could not afford a loan because of high interest rates.[2]

Capital access matters because the stakes are high for both small businesses and the U.S. economy: Small businesses that cannot access capital may be unable to hire, expand, or pursue research and development, among other things. Ultimately, some may be forced to close their doors. Sixty-four percent of former business owners who experienced challenges accessing capital to cover

[b] Quote is from a TriNet event on January 10, 2024. The event is available at: https://www.youtube.com/watch?v=1-zA8JxeNcg.

business expenses said this was a primary reason for closing their business.[3] Capital access also matters for the economy. In 2023, small businesses accounted for 46% of private-sector employment in the United States and made up 99% of all businesses.[4]

Access to Capital Snapshot
About 90% of new businesses with employees require startup capital, with about 1 in 5 businesses needing more than $100,000 to start. (*Access to Capital for Entrepreneurs: Removing Barriers: 2023 Update*, Ewing Marion Kauffman Foundation)
Fifty-one percent of small businesses that applied for a loan, line of credit, or merchant cash advance were fully approved in 2023, a rate that remains below pre-pandemic levels. (*Small Business Credit Survey, 2024 Report on Employer Firms*, Federal Reserve)

Policymakers have long recognized the importance of this issue. Addressing gaps in small business credit is the reason SBA's 7(a) loan guaranty program exists. As established 70 years ago, the program is intended to help facilitate the provision of credit to small businesses for whom it "is not otherwise available" by derisking lending. The 7(a) program guarantees up to 85% of loans made by participating lenders of $150,000 or less and up to 75% for loans above $150,000.

In fiscal year 2023, participating lenders issued $27.5 billion in credit to small businesses through the 7(a) program, almost $2 billion more than in the previous year. While half of all 7(a) loans were $150,000 or less, the average loan size was $479,685. Black-, Hispanic-, and female-owned small businesses received greater shares of 7(a) loans in FY2023 than in FY2022, yet they still lag their white and male counterparts.

7(a) Portfolio Segment	FY2022 %	FY2023 %
Black	7%	8%
Hispanic	10%	12%
Female-owned	32%	33%
Male-owned	68%	67%
Existing or more than 2 years old	51%	53%
New business or 2 years or less	21%	20%
Startup, loan funds will open business	18%	18%
Rural	19%	17%
Urban	81%	83%

Source: SBA

The 7(a) program plays an important role in meeting the capital needs of small businesses, but it is only one piece of the capital landscape. For policymakers looking to expand access to capital, other issues must also be addressed. Here, too, federal policymakers have sought to help small businesses in many ways, including through SBA programs like the Small Business Investment Company (SBIC) and the Treasury Department's State Small Business Credit

Initiative (SSBCI), which provide debt and equity financing. The Securities and Exchange Commission plays a role by enforcing rules about investment in small businesses, and banking regulators shape the lending environment in numerous ways.

Beyond SBA: Examples of Federal Programs and Policies That Help Small Businesses Access Capital			
Treasury Department	**Agriculture Department**	**Interior Department, Bureau of Indian Affairs**	**Banking Regulators (e.g., Federal Reserve, FDIC)**
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS (CDFI) FUND Grants and loan guarantees help community development financial institutions lend to small businesses in economically distressed communities.	RURAL ECONOMIC DEVELOPMENT BUSINESS AND INDUSTRY GUARANTEED LOAN PROGRAM Loan guarantees support lending to small businesses in rural communities.	INDIAN LOAN GUARANTEE AND INSURANCE PROGRAM Participating lenders receive loan guarantees or insurance to support lending to Native-owned small businesses.	COMMUNITY REINVESTMENT ACT Regulators annually assess chartered banks' small business lending to determine if banks are meeting their requirement to provide credit to the needs of their entire community, including low- and moderate-income neighborhoods.

In recent years, technology advances have begun to reshape small business financing. Traditional lenders, such as banks and credit unions, are increasingly integrating digital technology and offering services online. A whole new set of lenders (such as fintechs), born in the digital age, are innovating with new methods of underwriting to deploy capital more quickly and to underserved communities. In 2023, nearly a quarter (23%) of small businesses applied for loans, lines of credit, or merchant cash advance products[c] from these new online lenders.[5]

PRINCIPLES FOR POLICY ACTION

Meet Capital Needs Across the Business Life Cycle | Personal or family savings are the most-often used source of capital when starting a business.[6] Policies that facilitate wealth-building can have positive downstream effects on entrepreneurship—the starting point of all businesses. As businesses mature, their capital needs change. Robust support for small businesses means providing them with funding options across their life cycle.

Close Racial, Gender, and Geographic Financing Gaps | Good ideas and capable entrepreneurs come from all backgrounds and are found in every community across the nation. Ensuring that diverse business owners have access to capital will boost their businesses and benefit their communities.

c Merchant cash advance products provide small businesses with capital in exchange for a percentage of future credit card and debit card revenue, plus fees.

Responsibly Leverage Financial Innovations to Get More Capital to More Small Businesses | At its best, financial technology can lower the cost of capital, creating new channels for businesses to access credit. Although fintech companies increased access to credit through digital tools during the pandemic, a small number were identified as also contributing to high levels of suspected fraud. Policymakers should work collaboratively with financial innovators to maximize the benefits of technology-enabled lending while minimizing risk, fraud, and cost.

Bipartisan Capital Access Bills in the 118th Congress

Bill	Primary Sponsors	Description
H.R. 449 **Microloan Transparency and Accountability Act***	Reps. Andy Kim (D-NJ) Tim Burchett (R-TN) Scott Fitzgerald (R-WI)	Requires SBA to report disbursement metrics for microloans and incentivize engagement with rural businesses by offering a 5% technical assistance grant for microloan intermediaries that make at least 25% of their loans to rural small businesses.
H.R. 5333 **Investing in All of America Act***	Reps. Hillary Scholten (D-MI) Daniel Meuser (R-PA)	Increases capital available to small businesses in rural or low-income areas by not counting dollars invested in these businesses against SBIC leverage caps.
H.R. 3717 **S. 1157** **MicroCap Small Business Investing Act***	Reps. Joe Neguse (D-CO) Young Kim (R-CA) Sens. John Hickenlooper (D-CO) Catherine Cortez Masto (D-NV) James Risch (R-ID)	Creates a new SBIC license designation to expand the diversity of fund managers and the diversity of small businesses that get SBIC investment.
S. 3319 **Expanding American Entrepreneurship Act**	Sens. Mark Warner (D-VA) Jerry Moran (R-KS) Tim Scott (R-SC)	Allows angel funds that invest in early-stage startups to be larger (from $10 million to $50 million) and include more investors per fund (from 250 to 500).

***Indicates endorsement by BPC Action.**

Expanding Small Business Procurement

Helping small businesses compete for and win federal contracts can significantly strengthen this important sector. In FY2022, the federal government awarded small businesses $162.9 billion in contracts.[7]

Beyond presenting a huge market opportunity, what does the state of small business federal procurement look like? The answer depends.

On the positive side, the federal government has met or surpassed its mandated annual goal to award 23% of direct contract dollars to small businesses for the past 10 years (FY2013-FY2022). It has also met its prime contracting goal[d] for small, disadvantaged businesses every year since FY2009—even after the Biden administration increased the goal from 5% to 11% in 2022.

Yet, look a little deeper and the picture becomes more complicated. Between 2010 and 2019, the number of small businesses providing common products and services to the federal government shrank by 38%. Even more alarming, the number of new small business entrants into the federal procurement marketplace fell by 79% from 2005-2019.[8] So, while the federal government consistently meets its topline procurement goal, it does so by working with a shrinking number of small businesses.

SBA's Small Business Procurement Scorecard, an important tool for monitoring and accountability, further muddies the picture. On one hand, the scorecard gave 20 of 24 federal agencies an A or A+ grade for contracting with small businesses in FY2022. Seven agencies that got an A grade, however, failed to meet one or more subcategory goals, such as contracting with small businesses owned by disabled veterans or women.[9]

[d] Prime contracts are agreements for goods or services made between the federal government and the supplier. Prime contractors work directly with the government and might use subcontractors to complete portions of the contract.

Figure 1. Federal Government Consistently Meets, and Fails to Meet, Small Business Contracting Goals

Fiscal Year	Overall Goal: 23%	SDB Goal*: 5%	WOSB Goal: 5%	SDVOSB Goal: 3%	HUBZone Goal: 3%
2022	✓	✓	⊗	✓	⊗
2021	✓	✓	⊗	✓	⊗
2020	✓	✓	⊗	✓	⊗
2019	✓	✓	✓	✓	⊗
2018	✓	✓	⊗	✓	⊗
2017	✓	✓	⊗	✓	⊗
2016	✓	✓	⊗	✓	⊗
2015	✓	✓	✓	✓	⊗
2014	✓	✓	⊗	✓	⊗
2013	✓	✓	⊗	✓	⊗
2012	⊗	✓	⊗	✓	⊗
2011	⊗	✓	⊗	⊗	⊗
2010	⊗	✓	⊗	⊗	⊗
2009	⊗	✓	⊗	⊗	⊗
2008	⊗	⊗	⊗	⊗	⊗
2007	⊗	⊗	⊗	⊗	⊗
2006	⊗	⊗	⊗	⊗	⊗

SDB: small disadvantaged business. WOSB: women-owned small business. SDVOSB: service-disabled veteran-owned small business. HUBZone: small business located in a designated HUBZone area.

**The Biden administration intends to raise the SDB goal to 15%. The goal jumped from 5% to 11% in FY2022 and 12% in FY2023.*

Source: SBA

A VEHICLE FOR STRENGTHENING SMALL BUSINESS PROCUREMENT

The National Defense Authorization Act (NDAA) is a common vehicle for small business procurement reforms. The FY2024 NDAA, for example, increased the governmentwide procurement goal for SDVOSBs from 3% to 5%, and directed the Department of Defense, the largest government purchaser of goods and services, to consider the past performance of companies affiliated with small businesses when it makes contract determinations.

Beyond Scorecard grade inflation, federal agencies can count small business contracts toward more than one subcategory goal. (For example, a prime contract made to a female-owned small business located in a HUBZone is counted toward both the women-owned small business (WOSB) and HUBZone goals.) This distorts agencies' performance, making it harder for policymakers and other stakeholders to have a true accounting of progress toward contracting goals.

Finally, there is great room for improvement in contracting with female-owned small businesses and businesses located in HUBZones. The governmentwide WOSB contracting goal has been met only *twice* since 1994, and the HUBZone goal has *never* been met.

PRINCIPLES FOR POLICY ACTION

Expand Small Business Participation in Federal Contracting | Whether it is the declining number of small businesses filling government contracts or the perennially unmet goals of contract dollars going to WOSBs and small businesses located in HUBZones, policymakers should prioritize reforms that will lower barriers for small businesses to participate in the federal procurement market.

Simplify the Procurement Process for Small Businesses | Winning a federal contract can be a boost to a small business. However, many small business owners describe federal procurement processes as "complicated" and "time-consuming."[10] Streamlining processes will make federal contracting a better, more accessible business opportunity for more small businesses.

Speed Up the Delivery of Payments | The federal government is required to pay contractors within 30 days of invoice, yet some small business contractors say enforcement of this requirement is lacking.[11] Subcontractors, who are paid by prime contractors, may also experience payment delays that can lead to cash flow challenges.[12] Policies that enforce the prompt-pay requirement and ensure small business subcontractors are also paid quickly will mitigate challenges associated with contract work.

Bipartisan Procurement Bills in the 118th Congress

Bill	Primary Sponsors	Description
H.R. 3511 **Service-Disabled Veteran Opportunities in Small Business Act***	Reps. Morgan McGarvey (D-KY) Nick LaLota (R-NY)	Directs SBA and the Department of Veterans Affairs to provide training to employees at agencies that fail to meet the service-disabled veteran-owned small business procurement goal on how to increase the number of contracts awarded to these small businesses.
H.R. 3716 **SPUR Act***	Reps. Joe Neguse (D-CO) Maria Elvira Salazar (R-FL)	Increases the governmentwide small business procurement goal from 23% to 25%.
H.R. 7103 **Agency Accountability Act***	Reps. Morgan McGarvey (D-KY) Pete Stauber (R-MN) Nick LaLota (R-NY)	Requires federal agencies that receive below an A grade on SBA's Small Business Procurement Scorecard to testify before Congress to explain why they fell short.
H.R. 7988 **Small Business Procurement and Utilization Reform Act**	Reps. Pete Stauber (R-MN) Marie Gluesenkamp Perez (D-WA)	Requires SBA's Small Business Procurement Scorecard to include data on the number of new entrants in the federal procurement marketplace (i.e., first-time prime contractors).
S. 3626 **Conforming Procedures for Federal Task and Delivery Order Contracts Act**	Sens. Gary Peters (D-MI) Joni Ernst (R-IA)	Reforms federal procurement processes modeled off Department of Defense practices designed to increase efficiency for agencies awarding contracts and contractors bidding on work.
S. 3772 **Simplifying Subcontracting Act**	Sens. John Hickenlooper (D-CO) James Risch (R-ID)	Requires use of plain language in subcontracting solicitations.

***Indicates endorsement by BPC Action.**

Encouraging Small Business Growth

In recognition of the important role that small businesses play in the American economy, federal policy encourages small business growth through a mix of grant programs, tax provisions, and other interventions.

Grant Programs to Support Small Business Research and Development

Two prominent examples of government support for activities that foster small business growth are the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. These grant programs spur technological innovation by directing a portion of federal agencies' research and development (R&D) budgets to small businesses. In doing so, the government seeks solutions that will help agencies fulfill their missions and encourages small businesses to engage in R&D.

In FY2019, $3.73 billion flowed through SBIR and STTR to support small businesses' R&D and commercialization activities.[13] The SBIR and STTR Extension Act of 2022 reauthorized these programs through FY2025 and made several improvements.[14] Additional reforms, including further increasing the number of open topic competitions that allow small businesses to propose solutions to challenges they define, would increase the diversity of small businesses that win SBIR and STTR funding and fuel business growth at these firms.[15]

Tax Policies to Encourage Small Business Investment

Additional policies to support small business growth are found in the tax code. The Tax Cuts and Jobs Act of 2017 (TCJA) was the most recent overhaul of federal tax policy for businesses organized as C corporations and as pass-throughs (i.e., partnerships, LLCs, S corporations, sole proprietors). It took time for businesses of all sizes to adapt to the new policies, but small businesses have fewer resources than their larger counterparts to take full, immediate advantage of changes to the tax code. With some TCJA provisions set to expire at the end of 2025 (such as the Section 199A deduction for qualified business income), many small businesses face uncertainty about how investments and other business activities will be taxed, complicating their long-term financial planning.

Two business cost recovery provisions altered by TCJA stand out for their importance in fueling small business growth: R&D expensing and Section 179 expensing.

R&D Expensing |The tax code has long incentivized investment in research and development, in part through a decades-old provision that allowed businesses to immediately deduct the full amount of qualified R&D expenditures in the same year the costs were incurred.[16] The Tax Cuts and Jobs Act upended full R&D expensing by doing away with the immediate deduction and instead requiring businesses to amortize, or spread out, their deductions over a period of five or 15 years.[17] Both Republicans and Democrats view this change, which took effect in 2022, as detrimental to small businesses, in part because amortization can create liquidity problems for small businesses and because amortization increases the costs of investing in R&D.[18] Firms that specialize in helping small businesses claim the R&D tax credit—a separate benefit important to many businesses—report that confusion and uncertainty over R&D expensing leads some small businesses not to claim the R&D credit, even though they are eligible.

Section 179 Expensing |Like immediate R&D expensing, Section 179 expensing benefits small businesses by allowing them to immediately deduct the costs of many investments. The expensing allowance has always been subject to a dollar limit and phases out when a business has surpassed a certain threshold for investments. From 2010-2017, the maximum expensing allowance was $500,000. The Tax Cuts and Jobs Act doubled the Section 179 allowance and indexed it to inflation.[19] The provision historically delivers a disproportionately large benefit for smaller businesses with fewer assets. As the allowance and investment limitation increase, larger small businesses will capture a greater share of the benefits.

The bipartisan Tax Relief for American Families and Workers Act (H.R. 7024), which has passed the House and is pending in the Senate, would reinstate immediate R&D expensing for 2022-2025—restoring the treatment of R&D expenses to what small businesses were familiar with before the TCJA changes took effect.[e] The Tax Relief for American Families and Workers Act would also raise the Section 179 allowance from its current level to $1.29 million and raise the threshold at which the allowance begins phasing out to $3.22 million. Both changes would lower the costs of investments that small businesses make as they seek to grow.

Digital Tool Acquisition to Help Small Businesses Compete

Investing in new equipment and seeking to discover and commercialize new technologies can help small businesses grow; increasing efficiency can also boost their bottom line.

Digitalization of business processes and operations is increasingly helping small businesses be more efficient, productive, and competitive. From 2021-

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e H.R. 7024 passed the House of Representatives on January 31, 2024, 357-70. The Senate had not acted on the bill before this report was finalized in mid-April.

2022, small businesses that leveraged technology platforms grew across sales, profits, and employment. Three-quarters of small business owners said that technology adoption helped them compete with larger firms.[20]

Small business digitalization has expanded to include artificial intelligence (AI) functions and AI-powered tools, which means another wave of transformation for small business growth.[21] Despite concerns about job displacement, AI has the potential to level the playing field between small businesses and their larger competitors. In multiple BPC roundtables in 2023 and 2024, small business owners said, "AI helps increase capacity so we can engage in other human-oriented tasks" and "It's a tool, not a replacement."

Although digital tools and AI-based products (such as human resource information systems, accounting, or marketing platforms), help small businesses streamline operations, enhance efficiency, and cut costs by removing administrative burdens, adoption is not always easy. Small business owners name affordability (46% cite the cost of training employees, 55% the cost of the products) and capacity (48% cite employees' lack of digital skills) as the main barriers preventing them from adopting AI tools.[22] Yet, when small businesses are able to use AI, they overwhelmingly find these tools to be helpful. A recent BPC and Morning Consult survey found that 83% of business owners said AI helped their businesses.

PRINCIPLES FOR POLICY ACTION

Prioritize Predictability | Policymakers should strive to make business programs and tax law predictable. Delayed congressional reauthorization of small business grant programs like SBIR and STTR and temporary changes to long-standing business tax provisions can create headaches for small businesses that use them and can complicate business planning and decision-making.

Simplify Where Possible | Business grant programs and tax provisions are only valuable if they are used. Complicated, confusing, and time-consuming programs and provisions discourage uptake. Arduous processes can also result in disparate outcomes, with the largest and most well resourced small businesses benefiting, while smaller businesses miss out.

Incentivize Business Growth through Innovation | Technological advances, including AI, can improve small businesses' productivity and help them compete against larger firms. Incentives that encourage business growth through the adoption of digital tools and the development of new technologies can strengthen small businesses and increase their aggregate impact on the economy.

Bipartisan Growth Bills in the 118th Congress

Bill	Primary Sponsors	Description
H.R. 2673 **American Innovation and R&D Competitiveness Act***	Reps. John Larson (D-CT) Ron Estes (R-KS)	Eliminates 5-year amortization for R&D expenditures.
H.R. 4498 **Jobs of the Future Act**	Reps. Darren Soto (D-FL) Lisa Blunt Rochester (D-DE) Lori Chavez-DeRemer (R-OR) Andrew Garbarino (R-NY)	Authorizes a study to identify infrastructure needs and necessary skills to prepare the workforce for AI.
S. 866 **American Innovation and Jobs Act***	Sens. Maggie Hassan (D-NH) Todd Young (R-IN)	Eliminates 5-year amortization for R&D expenditures.
S. 2330 **Small Business Technological Advancement Act***	Sens. Jeanne Shaheen (D-NH) Jacky Rosen (D-NV) Todd Young (R-IN) Ted Budd (R-NC)	Clarifies that small businesses can use 7(a) loans to finance technology that supports daily operations.
S. 2677 **Small Business Broadband and Emerging Information Technology Enhancement Act***	Sens. Jeanne Shaheen (D-NH) Edward Markey (D-MA) Mazie Hirono (D-HI) John Kennedy (R-LA) James Risch (R-ID)	Provides training to SBA employees so they can assist small business owners with AI adoption and authorizes SBDCs to help small businesses access and use AI.

***Indicates endorsement by BPC Action.**

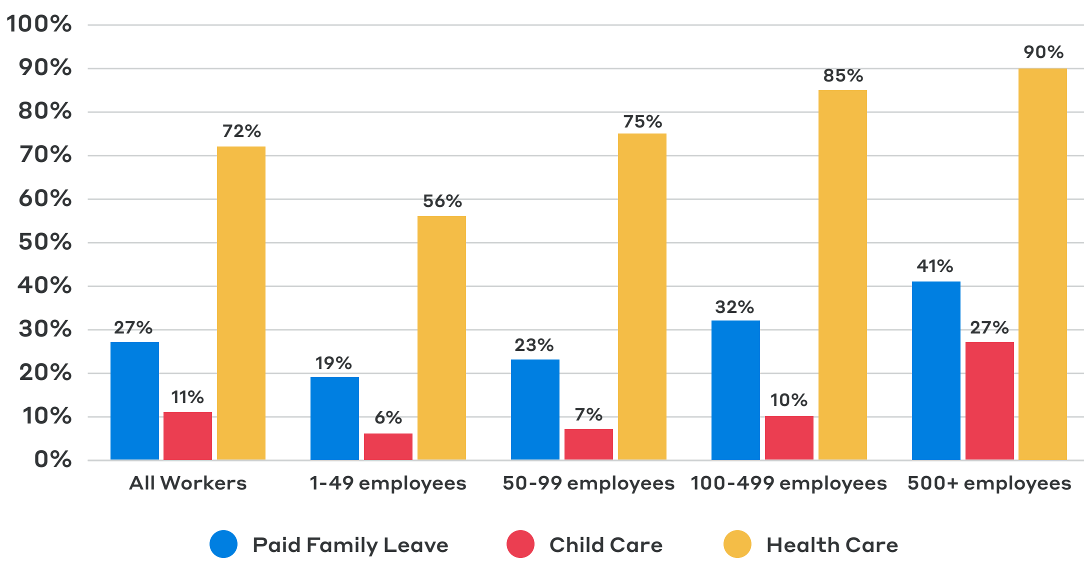
Supporting the Small Business Workforce

Small businesses play a crucial role in developing the workforce and fostering job creation and economic growth. According to the SBA's Office of Advocacy, small businesses employ 61.7 million Americans and pay nearly 40% of private-sector payroll.[23] Despite their importance to the labor markets, many small businesses cannot afford or are unaware of available resources that can help them build and retain a strong workforce by offering competitive benefits. Technical assistance from SBA and its local partners are underutilized, and resources that could be helpful – such as a public, comprehensive list of funding sources or tax incentives that support the small business workforce – do not exist.

Across multiple surveys, small business owners continue to cite hiring difficulties, particularly finding qualified candidates, as a significant challenge that can affect their bottom line and operational capabilities.[24] Most small businesses operate in service-based industries – the ones that are expected to grow and add most of the jobs in the next eight years – but these same industries are the most severely affected by labor shortages.[25] A Goldman Sachs *10,000 Small Businesses Voices* national survey found that in January 2024, 52% of survey respondents were hiring and 81% of small businesses found it difficult to find qualified candidates. Despite these difficulties, 57% of small businesses still expect to create new jobs in 2024.[26]

In 2022, two-thirds of small business decision-makers were worried about employees voluntarily leaving. The most common reasons for employees leaving were "unsatisfaction with pay" and "family/personal obligations."[27] Women were more likely to be primary caregivers and more often needed time off to look after family members. During the pandemic, 24% of caregivers left the workforce due to caregiving responsibilities, and over three-fourths said they would be less willing to take a job with fewer benefits, highlighting just how crucial these benefits are to workforce retention.[28] Policies that reduce the cost and complexity associated with offering worker benefits (e.g., health insurance, paid family leave, and child care) can help small employers compete for talent with larger companies.

Figure 2. Private-Sector Employee Access to Benefits in 2023 by Establishment Size



Source: U.S. Bureau of Labor Statistics, "National Compensation Survey: Employee Benefits in the United States," March 2023, September 2023. Available at: https://www.bls.gov/ebs/publications/employee-benefits-in-the-united-states-march-2023.htm.

PAID FAMILY LEAVE

Offering paid-leave benefits can help small businesses compete by attracting and retaining employees. When paid leave is an employer-provided benefit, people working for companies with more than 500 employees are more than twice as likely to receive paid family leave benefits as those working for companies with fewer than 50 workers. In 2023, only 19% of employees at firms with fewer than 50 workers had employer-provided paid family leave, compared with 41% for larger firms.[29]

The gap in employer-provided paid family leave between larger and smaller employers is not due to a lack of interest from employers. In today's tight labor market, employers are turning to paid leave benefits to attract and retain talent. Support for paid leave programs increased among small employers during the pandemic: Of firms with 10-99 employees surveyed in 2020, almost 70% were supportive of paid leave policies.[30]

However, small businesses encounter significant challenges in offering paid leave without government support. For small businesses, a single employee often represents a substantial portion of the employer's workforce. Consequently, the "cost" of paid leave goes beyond covering the employee's salary during his or her absence to include expenses related to decreased productivity and the need to find a replacement.[f]

45S |The 45S Employer Credit for Paid Family and Medical Leave, passed in 2017, helps employers provide paid family leave benefits.[31] This credit, which is set to expire in 2025, offsets up to 25% of the cost to employers of providing paid leave. That it applies only to a portion of the wages covered by the paid leave benefit and does not cover other costs associated with the benefit, including that of a replacement worker, is particularly limiting for small businesses. Strengthening the credit to better offset the full cost of the benefit, while increasing awareness of the tax credit through marketing and education campaigns, could increase the number of employers providing paid leave to hardworking American families.[32]

[f] The House Bipartisan Paid Leave Working Group was launched in 2023 with the support of BPC. In January of 2023, the group released a legislative framework that includes four pillars of possible legislative policy: a public-private partnership pilot; coordination and harmonization of paid leave benefits across states; small-employer pooling for paid leave insurance; and improvements to paid leave tax credits for small businesses and working families. Read the framework here https://houlahan.house.gov/uploadedfiles/house_bipartisan_paid_family_leave_working_group_-_legislative_framework.pdf, and learn more about BPC and BPCA's support here https://bpcaction.org/bpc-action-applauds-bipartisan-paid-family-leave-policy-framework/.

CHILD CARE

Child care is crucial to a stable workforce; its availability affects all businesses. If working parents cannot find quality, affordable child care, they cannot work. Child care in the United States operates as a private market, served through a mixed-delivery system of center-based, home-based, faith-based, and publicly funded pre-K programming.

Across the country the demand for quality, affordable child care greatly exceeds the available supply. The child care gap takes an enormous economic toll, resulting in lost work hours and productivity.[33] According to BPC analysis from 2021, the impact on businesses across just 35 states amounts to between $20 billion and $31 billion of lost productivity over 10 years.[34] The child care gap is felt more acutely in rural communities, where a 2023 BPC survey found that 85% of families reported they or their partner were not working due to a lack of access to child care.[35]

Like other things, the pandemic made this long-standing challenge more acute. Survey results from 2022 found that during the pandemic, 45% of mothers with children ages 5 and under left the workforce due to child care issues.[36] For small business owners with children, child care poses a dual challenge, as they struggle with securing affordable, quality care for their employees' children and their own.

CHILD CARE: A TWO-SIDED CHALLENGE

The other side of the challenge is for child care providers themselves. With 95% of child care providers in the United States being small businesses, they face challenges related to costs, operations, and staffing. Providing quality child care comes at a higher cost than what most parents can afford, leading providers to operate on slim margins and pay staff low wages. Driven by adult-to-child ratios, child care labor accounts for 70%-80% of operating costs despite a median hourly wage of $13.71 per hour for early educators. With a child care workforce of 2 million—1.4 million center-based and 600,000 home-based—child care staff report income below the poverty line at nearly double the rate (14.7%) of workers in other professions.

Sources: *From Pandemic to Prosperity: Bipartisan Solutions to Support Today's Small Businesses* (Bipartisan Policy Center, March 2022); *Guidance on Estimating and Reporting the Costs of Child Care* (Child Care Technical Assistance Network, August 2023); and *Building a State Child Care Center Workforce* (Bipartisan Policy Center, February 2024)

Policies like the Child and Dependent Care Tax Credit (CDCTC) and the Employer-Provided Child Care Tax Credit (45F) are uniquely positioned to support both supply and demand of child care for working parents.

CDCTC | The CDCTC is a nonrefundable credit that allows eligible taxpayers to offset a portion of their out-of-pocket child and dependent care expenses necessary for work. Taxpayers can claim the credit for up to $3,000 in expenses for one dependent and $6,000 in expenses for two or more. The maximum credit rate is 35% of eligible expenses, and it phases down as income rises until it reaches 20%.[37]

45F | 45F is a credit for businesses to offset the cost of providing or subsidizing child care for their employees. Another nonrefundable tax credit, 45F covers employers for up to 25% of qualified child care expenditures and 10% of qualified child care resource and referral expenditures. The credit maximum is $150,000.[38] The current credit design, however, makes it difficult for small businesses with limited financial resources and a smaller pool of employees to utilize. To receive the full credit, most employers must spend approximately $600,000 in annual eligible expenses, pricing many small businesses out of the credit.[39] 45F should be redesigned to better maintain a stable, thriving workforce.[g]

HEALTH INSURANCE

The Patient Protection and Affordable Care Act of 2010 mandates that businesses with more than 50 full-time employees must offer health insurance to their workers. Small businesses below this employee threshold *can* provide health insurance-related benefits, such as purchasing insurance through the Small Business Health Options Program, or by offering health reimbursement arrangements.[40]

On average, between 2020-2022, 86% of all private-sector employees worked for companies that offered employer-sponsored health insurance (ESI), making ESI the primary source of health coverage nationwide.[41] Escalating health care costs pose challenges for employers of all sizes to maintain consistent insurance benefit levels.[42] According to a survey conducted in 2022, employees were twice as likely to switch employers if their employer did not provide the health insurance coverage they needed.[43] Offering health insurance as a benefit makes for a healthier small-business workforce and employment at small businesses more attractive in the hiring process.

g Specific recommendations to improve 45F can be found at https://bipartisanpolicy.org/explainer/employer-provided-child-care-credit/.

PRINCIPLES FOR POLICY ACTION

Improve Awareness about Existing Support to Offset the Cost of Child Care and Paid Leave Benefits | Time and time again, small business owners say they are unaware of the resources or options available to help them address their workforce challenges. They simply do not have the capacity to navigate ever-changing laws. From tax credits to technical assistance, increasing awareness can help improve the uptake of child care and paid leave policies that can reduce costs for business owners and expand access for workers.

Reduce Complexity | Small business owners are rarely experts on the tax code and other policies meant to help them provide health insurance and other benefits to their workers–they are focused on running their businesses. Efforts to simplify or eliminate administrative burdens in navigating benefit eligibility, applying for or enrolling in benefits, and reporting benefit usage can help more small businesses offer benefits that will attract and retain employees.

Improve Technical Assistance for Small Businesses Seeking Workforce Support | Small business owners succeed when they are well supported, especially owners of small child care centers. Having access to the most recent resources and qualified guidance can help ease the administrative burden on small business owners when navigating employee benefits. In addition, improved technical assistance can help address the underlying challenges of the child care business model. Public-private partnerships, such as the Small Business Digital Alliance, are one way to develop technical assistance programs.

Lower Costs for Small Employers while Maintaining Adequate Health Care Insurance Coverage for Employees | Reducing costs is crucial for small businesses that do not have the same access to funding as larger firms or the staffing to administer benefits. Reduced costs can help small firms remain competitive and financially secure, while also promoting employee well-being and satisfaction by providing health care benefits. This ultimately can lead to more quality candidates in the hiring process, higher retention rates, and improved productivity.

Bipartisan Small Business Workforce Bills in the 118th Congress

Bill	Primary Sponsors	Description
H.R. 3271 **Empowering Employer Child & Elder Care Solutions Act***	Reps. Josh Harder (D-CA) Elise Stefanik (R-NY) Ashley Hinson (R-IA)	Amends the Fair Labor Standards Act of 1938 to exclude child and dependent care services and payments from the rate used to compute overtime compensation.
H.R. 4571 **Child Care Investment Act***	Reps. Salud Carbajal (D-CA) Lori Chavez-DeRemer (R-OR)	Enhances the CDCTC credit rate, indexes it to inflation, increases Dependent Care Assistance Program (DCAP) to $10,000, increases 45F credit rate and amount, and includes home-based care as an eligible expense for the purposes of 45F.
H.R. 6156 **Child Care Small Business Insight and Improvement Act***	Reps. Greg Landsman (D-OH) Julia Letlow (R-LA)	Requires SBA to designate a point person whose focus is supporting for-profit child care providers; conduct a study; and identify resources to support for-profit child care providers.
H.R. 7360 **PACE Act***	Reps. Bradley Schneider (D-IL) Claudia Tenney (R-NY)	Enhances the CDCTC rate, indexes to inflation, and increases DCAP to $7,500.
H.R. 2602 **S. 673** **Small Business Child Care Investment Act***	Reps. Susie Lee (D-NV) Pete Stauber (R-MN) Sens. Jacky Rosen (D-NV) Tammy Duckworth (D-IL) Joni Ernst (R-IA) Marco Rubio (R-FL)	Allows nonprofit child care providers that qualify as small businesses to participate in SBA loan programs.
S. 3680 **Paid Family and Medical Leave Tax Credit Extension and Enhancement Act**	Sens. Angus King (I-ME) Deb Fischer (R-NE)	Makes the employer-provided paid family and medical leave credit more durable and helps businesses provide paid leave benefits to more workers.

***Indicates endorsement by BPC Action.**

Conclusion

Small businesses are a diverse and ever-changing-constituency. After years of historically lackluster entrepreneurial activity, the pandemic ushered in a new era of business formation across the United States. Americans set a record for the number of new businesses started in 2021, then broke that record last year—establishing 5.5 million new firms in 2023. Of these new businesses, a record 1.78 million are classified as likely to hire employees.[44]

A broad-based policy agenda will help the newest small businesses overcome barriers, while also supporting America's existing small businesses.

To continue the long-standing tradition of bipartisan support for small businesses, policymakers can strengthen SBA programs and consider other issues—from taxes to workforce and more—through a small business lens. In doing so, policymakers can truly fortify the "backbone" of the U.S. economy now and in the years ahead.

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