

ECONOMIC PERSPECTIVE

Discussion of Recent Economic Developments
Publication 329

Volume XX, Number 3
October 2014

Characteristics of Exceptionally Small Businesses

Small Business Taxpayers

Board of Equalization data indicates that a majority of taxpayers are likely to be relatively small businesses. There are over 480,000 sales and use taxpayers filing annual returns, implying that they have taxable sales of less than \$16,000 per year.¹ These annual filers comprise over 50 percent of total sales and use taxpayers. Not all of these taxpayers have small amounts of dollar sales, since revenues can be derived from exempt sales as well as taxable. However, many of these businesses are small in terms of total revenues. In fiscal year 2012-13 the Board held 25 Small Business Fairs throughout the state to assist such taxpayers.²

What characterizes these small businesses? U.S. Census Bureau surveys tell us a great deal about what these small businesses look like.

This edition of the Economic Perspective discusses businesses so small that they do not have employees. We find that in 2012:

- California had about 2.9 million nonemployer businesses, producing \$149.4 billion in sales.
- Service businesses dominated nonemployers.
- While typical sales were less than \$50,000 a year, about one percent of nonemployers had sales over \$500,000.
- California nonemployers averaged 13 percent more sales than national nonemployers.

¹ To qualify as an annual filer, sales and use taxpayers must have a reported liability of less than \$1,200 per year. At a tax rate of 7.5 percent (which assumes there are no local district taxes) this implies taxable sales of \$16,000 per year.

² Source: <http://www.boe.ca.gov/aboutboe/stats.htm>

Economic Census Data

The U.S. Census Bureau performs detailed surveys of businesses every five years. The surveys require years to tabulate, but they provide the most comprehensive information regarding business transactions. Data for the 2012 Economic Census is beginning to become available this year. One of the earliest releases of 2012 Economic Census information is for nonemployer businesses.³

California Summary

Nonemployer businesses do not have paid employees. They include sole proprietors, partnerships and incorporated businesses. As shown in Table 1, California had about 2.9 million nonemployer establishments in 2012, with sales of approximately \$149.4 billion.

³ Source: U.S. Census Bureau www.census.gov/econ/census/schedule/whats_been_released.html

Board Members

Betty T. Yee
First District
San Francisco

Sen. George Runner (Ret.)
Second District
Lancaster

Michelle Steel
Third District
Orange County

Jerome E. Horton
Fourth District
Los Angeles

John Chiang
State Controller

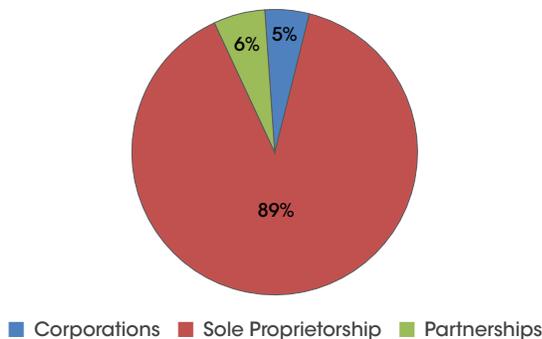
Cynthia Bridges
Executive Director

Table 1
California Nonemployer Establishments and Sales
(Ranked by Number of Establishments)

	Establishments	Sales (Thousands of Dollars)
Total for all sectors	2,926,065	\$149,428,305
Professional, scientific, and technical services	510,600	24,852,250
Other services (except public administration)	453,196	12,843,965
Real estate and rental and leasing	303,819	35,369,379
Health care and social assistance	266,155	8,983,277
Administrative and support and waste management and remediation services	248,479	6,055,322
Retail trade	225,506	11,529,158
Construction	216,569	11,552,985
Arts, entertainment, and recreation	189,071	6,277,301
Transportation and warehousing	128,267	9,500,176
Finance and insurance	83,765	6,487,961
Educational services	74,298	1,246,487
Wholesale trade	61,167	6,536,694
Information	59,482	2,551,405
Manufacturing	45,927	2,640,139
Accommodation and food services	39,730	2,016,805
Agriculture, forestry, fishing and hunting	13,464	687,175
Mining, quarrying, and oil and gas extraction	5,120	224,056
Utilities	1,450	73,770

Note: Title wording is verbatim from the Census Bureau.

Chart 1
California Nonemployers by Legal Form of Organization



Industries

Services dominate nonemployer businesses. As shown in Table 2 (see page 3), the top five California nonemployer industries are service industries. Combined they account for 60.9 percent of all nonemployer business establishments in the state. As for industries either selling or purchasing significant quantities of goods, retail trade and construction are well represented, ranking sixth and seventh, respectively. In 2012, there were 225,506 nonemployer retail trade establishments in California and 216,569 nonemployer construction establishments (see Table 1).

Legal Forms of Business

The overwhelming majority of nonemployers are sole proprietors. In fact, 89 percent of all California nonemployer establishments are sole proprietors, which comprise 66 percent of nonemployer sales (Charts 1 and 2).

Sales by Size Classification

The Census Bureau presents U.S. data for nonemployer establishments by sales size category. While these data are not available for states, Census data and our analyses indicate that California likely will mirror the U.S. data proportionally. The vast majority of nonemployers have relatively small amounts of dollar sales. As shown in Chart 3, close to 66 percent of nonemployers have sales less than \$25,000 per establishment. However, some nonemployer establishments have a large amount of sales; 10.8 percent of them have sales that exceed \$100,000. About one percent of them have sales over \$500,000.

Table 2
California Nonemployer Establishments and Sales
(Ranked by Number of Establishments)

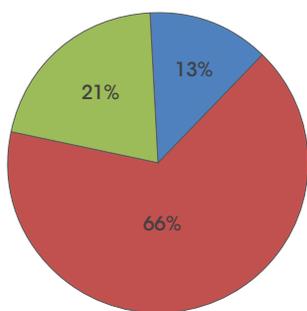
Rank	Industry	Percentage of Establishments	Cumulative Percent
1	Professional, scientific, and technical services	17.5%	17.5%
2	Other services (except public administration)	15.5%	32.9%
3	Real estate and rental and leasing	10.4%	43.3%
4	Health care and social assistance	9.1%	52.4%
5	Administrative and support and waste management	8.5%	60.9%
6	Retail trade	7.7%	68.6%
7	Construction	7.4%	76.0%
8	Arts, entertainment, and recreation	6.5%	82.5%
9	Transportation and warehousing	4.4%	86.9%
10	Finance and insurance	2.9%	89.7%
11	Educational services	2.5%	92.3%
12	Wholesale trade	2.1%	94.4%
13	Information	2.0%	96.4%
14	Manufacturing	1.6%	98.0%
15	Accommodation and food services	1.4%	99.3%
16	Agriculture, forestry, fishing and hunting	0.5%	99.8%
17	Mining, quarrying, and oil and gas extraction	0.2%	100.0%
18	Utilities	0.0%	100.0%

Note: Title wording is verbatim from the Census Bureau. Cumulative percentages may differ from the sum of industry percentages because of rounding error.

Average Sales per Establishment

California nonemployers average sales of \$51,068 per business (Chart 4). Partnerships and corporations have much higher than average sales, \$179,938 and \$134,920.

Chart 2
California Sales by Nonemployers by Legal Form of Organization



■ Corporations ■ Individual Proprietorship ■ Partnerships

Chart 3
U.S. Nonemployer Sales by Sales Classification

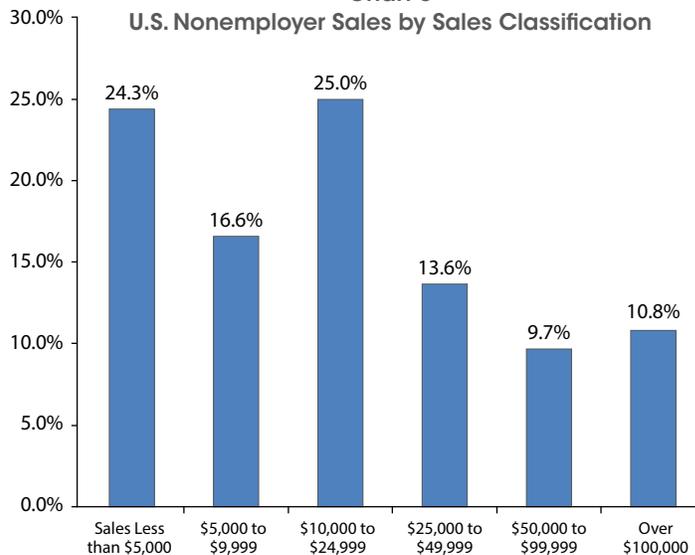
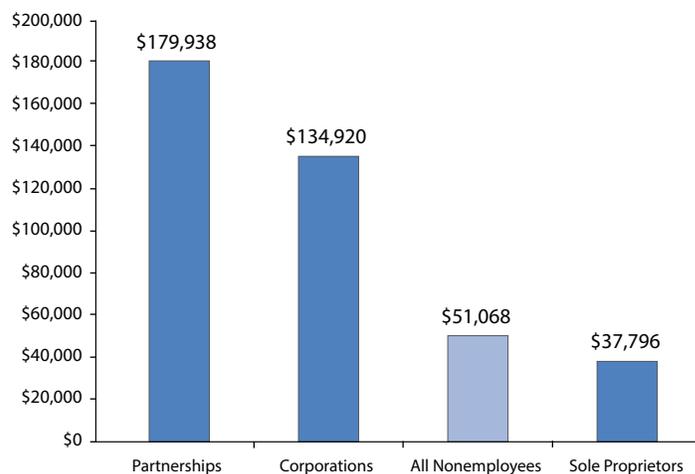


Chart 4
California Nonemployer Sales per Establishment



Average Sales by Industry

Table 3 shows average sales by industry and compares them to U.S. averages. On average, California nonemployer sales per establishment are 113 percent of U.S. nonemployer sales per establishment. With the exceptions of mining and construction, California sales per nonemployer establishment are all well above U.S. industry averages.

Ranked Average Industry Sales

Table 4 ranks the average sales of Table 3. Real estate and wholesale trade sales are more than twice as much as average. Other above average industries include finance, manufacturing, construction, and retail trade.

Table 3
California Sales per Establishment
Nonemployer Establishments

	CA Sales per Establishment (Dollars)	Percentage of U.S.
Total for all sectors	\$51,068	113%
Agriculture, forestry, fishing and hunting	51,038	115%
Mining, quarrying, and oil and gas extraction	43,761	62%
Utilities	50,876	119%
Construction	53,346	99%
Wholesale trade	106,866	117%
Information	42,894	119%
Finance and insurance	77,454	107%
Real estate and rental and leasing	116,416	122%
Professional, scientific, and technical services	48,673	109%
Administrative and support and waste management and remediation services	24,370	115%
Educational services	16,777	119%
Health care and social assistance	33,752	110%
Arts, entertainment, and recreation	33,201	136%
Accommodation and food services	50,763	115%
Other services (except public administration)	28,341	113%
Manufacturing	57,486	123%
Retail trade	51,126	118%
Transportation and warehousing	74,066	112%

Table 4
California Sales per Establishment
Nonemployer Establishments
(Ranked From Highest to Lowest)

	CA Sales per Establishment (Dollars)
Real estate and rental and leasing	\$116,416
Wholesale trade	106,866
Finance and insurance	77,454
Transportation and warehousing	74,066
Manufacturing	57,486
Construction	53,346
Retail trade	51,126
Total for all sectors	51,068
Agriculture, forestry, fishing and hunting	51,038
Utilities	50,876
Accommodation and food services	50,763
Professional, scientific, and technical services	48,673
Mining, quarrying, and oil and gas extraction	43,761
Information	42,894
Health care and social assistance	33,752
Arts, entertainment, and recreation	33,201
Other services (except public administration)	28,341
Administrative and support and waste management and remediation services	24,370
Educational services	16,777

Contact Us

Please contact us if you would like to be added to our mailing list, need additional copies, or have questions or comments.

Joe Fitz, Chief of Research and Statistics, MIC:67
 State Board of Equalization
 PO Box 942879
 Sacramento, CA 94279-0067
 1-916-323-3802
research@boe.ca.gov

Current and past issues of this publication are on our website: www.boe.ca.gov/news/epcont.htm

Taxpayers' Rights Advocate: 1-888-324-2798
 To contact your Board Member, see www.boe.ca.gov/members/board.htm

Online Resources

For more information about topics covered in this publication and previous issues, please visit any of the websites listed below.

California Department of Finance

www.dof.ca.gov

California Employment Development Department (EDD),

Labor Market Conditions in California

www.labormarketinfo.edd.ca.gov

Federal Reserve Bank of Philadelphia, *Survey of*

Professional Forecasters

<http://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/>

National Association for Business Economists

www.nabe.com

U.S. Bureau of Economic Analysis

www.bea.gov

U.S. Bureau of Labor Statistics

www.bls.gov/cpi

U.S. Census Bureau

www.census.gov