

2-1-2021

## **Navigating Government Statistics of Small Businesses for Pandemic Assistance**

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### **Repository Citation**

Demko, Iryna; Lendel, Iryna V.; and Figueroa, Georgina Guadalupe, "Navigating Government Statistics of Small Businesses for Pandemic Assistance" (2021). *All Maxine Goodman Levin School of Urban Affairs Publications*. 01231713.

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## Navigating Government Statistics of Small Businesses for Pandemic Assistance

This brief examines various sources of government statistics to assist in understanding the scope of small businesses, the legal structure of their operations, and their distribution by industry in the Northeast Ohio (NEO) region.<sup>1</sup> Under the current restrictions for business operations due to the COVID-19 pandemic, many entrepreneurs and small businesses need assistance to maintain cash flow and to retain both their employees and customers. Governments at all levels have developed business assistance programs to help small businesses; more recently, some of these programs have revised their rules.<sup>2</sup> To illustrate who might be affected by the changing rules, several sources of government statistics can be used to define how many companies operate as a small business in the region. Entrepreneurs and small businesses play a crucial role in the regional economy, and for a successful recovery, it is imperative that small businesses and entrepreneurs stay afloat during this pivotal period.

Multiple sources of government statistics address small businesses from two sides: (1) the characteristics of companies and business establishments where people are working and (2) the status of people's employment based on the legal form of their business. Confoundingly, these approaches partially overlap and count the same people. In addition, small businesses are sometimes approximated by their legal form. This brief will reconcile the confusion by providing explanations to similarities and differences across multiple data sources.

### Business Size Matters

The U.S. Census Bureau provides two different data series defining small businesses: Nonemployer Statistics (NES) and County Business Patterns (CBP). A nonemployer business sustains one job for the owner, — and lone employee — who manages the business

and generates personal income (Table 1). The NES data series uses Internal Revenue Service (IRS) data to determine businesses with no paid employees and business receipts of over \$1,000 a year subject to federal income tax.<sup>3</sup> On the other hand, the CBP collects data on the business size and paid employment by industry from a confidential business database assembled from administrative records, the Census, and survey data from the Census Bureau.<sup>4</sup> The size of employment for each business matters because a small business that has between 1 to 500 employees, according to the U.S. Small Business Administration (SBA)'s rules, is eligible for the Paycheck Protection Program (PPP) — a loan program created by the federal government to help small businesses maintain their workforce employed during the pandemic.

In NEO, the vast majority of people work for small businesses. As shown in Table 1, small businesses with less than 500 employees supported 1.6 million jobs in 2018 and nonemployer businesses accounted for almost 400,000 jobs. Together, nonemployers and small businesses with less than 500 employees represented 95% of all jobs in NEO, while businesses with more than 500 employees (i.e., large businesses) accounted for only 5% of NEO's totality of jobs.

The Northeast Ohio economy relies on small businesses more than the state economy; the share of small businesses is greater in NEO (76%) than in Ohio (68%). At the state level, small businesses accounted for 3.8 million jobs (68%), nonemployer businesses supported nearly 800,000 jobs (14%), and large establishments accounted for over one million (18%) of all the jobs in Ohio. On average, a small business in NEO and Ohio employed 16 or 15 people, respectively (Table 1). The average number of employees in large businesses was significantly higher in Ohio (1,251 people) than in NEO (810 people).

**Table 1. Businesses in NEO and Ohio, by Size**

Business Size	Northeast Ohio			Ohio		
	Number of Businesses	Jobs	Jobs per Business	Number of Businesses	Jobs	Jobs per Business
Nonemployer Businesses	399,362	399,362	1	802,331	802,331	1
Small Businesses (less than 500 employees)	98,317	1,604,095	16	251,111	3,851,683	15
Businesses with more than 500 employees	126	102,000	810	817	1,022,139	1,251
<b>TOTAL</b>	<b>497,805</b>	<b>2,105,457</b>		<b>1,054,061</b>	<b>5,676,153</b>	

Sources: U.S. Census Bureau's Nonemployer Statistics (NES) and County Business Patterns (CBP)

<sup>1</sup> Northeast Ohio (NEO) counties: Ashland, Ashtabula, Columbiana, Cuyahoga, Erie, Geauga, Huron, Lake, Lorain, Mahoning, Medina, Portage, Richland, Stark, Summit, Trumbull, Tuscarawas, and Wayne.

<sup>2</sup> U.S. Small Business Administration (2021, January 8). [SBA and Treasury Announce PPP Re-Opening: Issue New Guidance](#).

<sup>3</sup> U.S. Census Bureau. (2020, May 27). [Nonemployer Statistics \(NES\). Data user guide \[PDF\]](#).

<sup>4</sup> U.S. Census Bureau. (2020, September 29). [County Business Patterns \(CBP\). About this Program](#).

## Distribution of Businesses by Industry

Some industries tend to have smaller businesses depending on when the economies of scale are achieved. Table 2 (on page 4) shows the distribution of nonemployers, small businesses, and large businesses by industry. The vast majority of nonemployers are concentrated in three service industries that offer opportunities for individual contractors and consultants: *Professional services; Management; and Administrative services*. Of the 1.6 million jobs supported by small businesses in NEO, the most significant numbers were reported in the *Educational services and Health care and social assistance* industries. Compared to nonemployers and small businesses, large businesses supported most of the jobs in *Manufacturing*.<sup>5</sup>

Figure 1 considers the total employment of small businesses and nonemployers in NEO.<sup>6</sup> In the U.S., nonemployer businesses tend to concentrate in the *Arts and Transportation* industries, while in NEO, nonemployers have a significant presence in *Professional Services*.<sup>7</sup> Small businesses are almost equally distributed across the top five sectors for both NEO and Ohio (Figure 1). Trends shown in Table 2 and Figure 1 are maintained in Ohio.

## Self-Employment in NEO

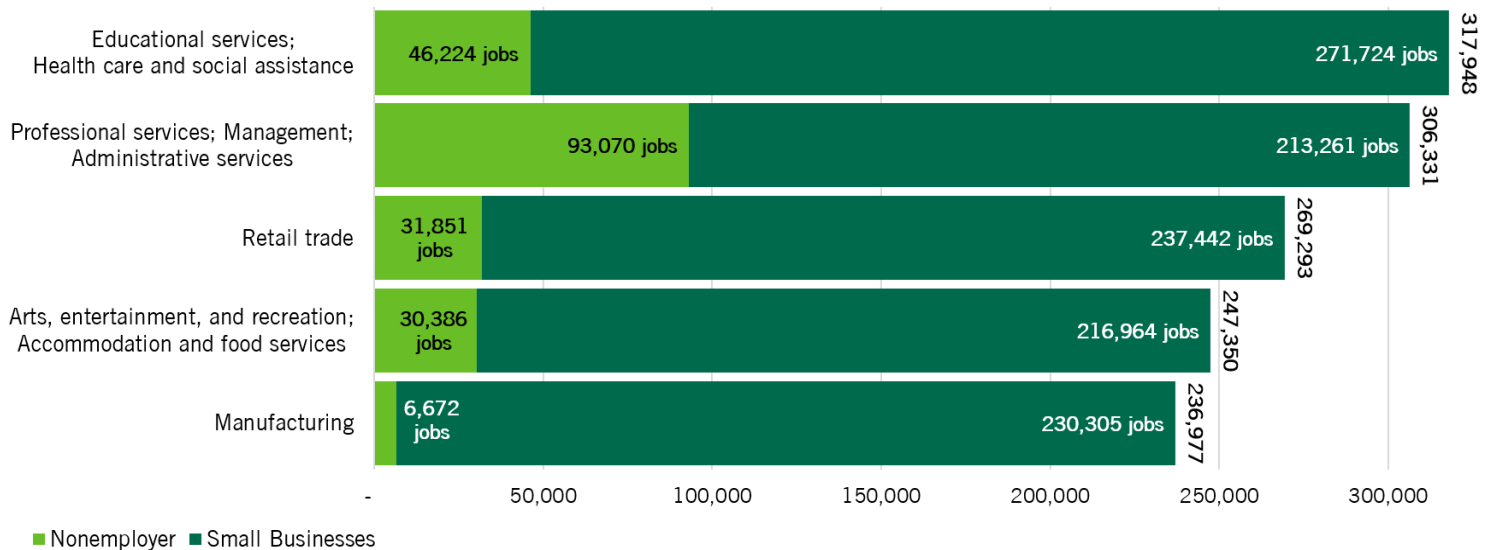
People counted in nonemployer statistics and the statistics of business establishments (the NES and/or CBP surveys) could make up part of the government statistics for self-employment. The U.S. Census Bureau collects data on self-employed in its American Community

Survey (ACS). ACS uses self-recorded household-based responses and classifies self-employed into two different categories related to the legal form of their business: “Self-employed in own incorporated business workers” and “Self-employed in own not incorporated business workers and unpaid family workers”.

In not incorporated, or unincorporated businesses, the self-employed are not a legally separate entity from the business, so they are personally liable for all taxes owed and revenues generated by the business. In a corporation, the owner and business are separate entities; therefore, the owner is not legally liable to issues arising from the business, and taxes are paid on the corporate earnings. In 2019, unincorporated and incorporated self-employed accounted for 8% (163,168 workers) of all employed in NEO (Table 3).

Figure 2 shows the trends in self-employment in NEO from 2013 to 2019.<sup>8</sup> Using 2013 as the base year, self-employment has shown steady signs of growth in both incorporated and unincorporated businesses while total employment also grew. The increase in self-employed incorporated was more rapid than unincorporated until 2018, where at this point, a sharp decline was associated with a smaller number of self-employed incorporated in *Professional Services, Finance and Insurance, and Transportation* industries. However, this decline was not present in Ohio, where the number of self-employed incorporated continued to have a steady growth.

**Figure 1. Top Industry Sectors for Nonemployers and Small Businesses in NEO**



Sources: 2018 U.S. Census Bureau's Nonemployer Statistics (NES) and County Business Patterns (CBP). Ranked by small business employment

<sup>5</sup> CBP data are collected per location; therefore, in the case of a large company, the number of employees is accounted “per establishment,” so even large companies could be considered a “small business” under this scenario.

<sup>6</sup> The figure considers the aggregate total of both categories, so — even when as shown in Table 2 — some industries have a larger share in either category (e.g. *Finance and insurance; Real estate and Construction* nonemployers); they are not shown in Figure 1.

<sup>7</sup> U.S. Small Business Administration. (2018). [A look at nonemployer businesses \[PDF\]. Office of Advocacy.](#)

<sup>8</sup> 2019 data is an estimate as the data for this year is only available for 7 counties (Cuyahoga, Lake, Lorain, Mahoning, Stark, Summit, and Trumbull). Additionally, the 5-year ACS estimate is used for 2013-2018, while 2019 uses 1-year estimate data.

Table 3. Workers in NEO and Ohio by Class

Workers by Class	Northeast Ohio		Ohio	
	Workers	Percent Employed	Number of Businesses	Percent Employed
Self-Employed Incorporated	65,931	3%	156,672	3%
Self-Employed Unincorporated	97,217	5%	279,772	5%
Employees of Private Companies	1,444,688	71%	3,955,979	71%
Government Workers	230,724	11%	671,453	12%
Private Non-Profits Workers	203,194	10%	531,567	10%
<b>TOTAL EMPLOYED</b>	<b>2,041,754</b>		<b>5,595,444</b>	

Sources: 2019 U.S. Census Bureau's ACS 5-Year Estimates TableID:S2407

### Legal Forms of Businesses

Many reports and figures communicated by think tanks and media organizations use varying statistics without proper reference to a legal form of business, which may cause confusion when comparing values. The definitions below may help better understand legal forms a small business may take (Figure 3).

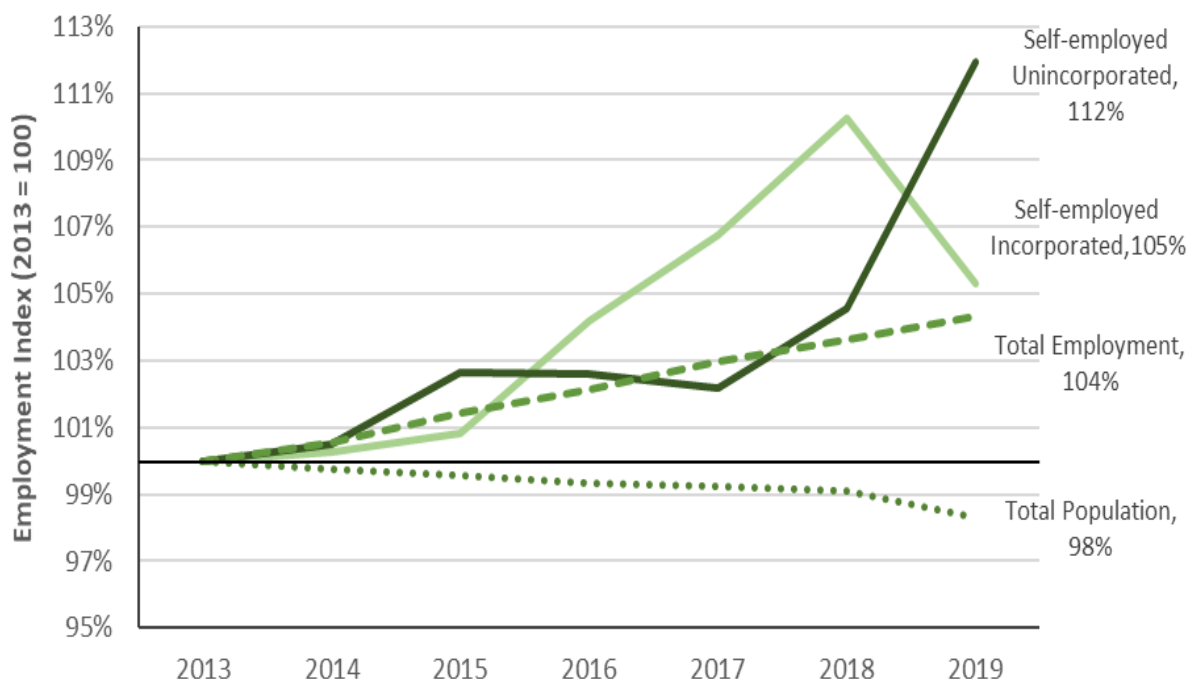
The IRS and SBA both define major legal forms of businesses. The most common type of unincorporated business is a *sole proprietorship*. This is the most common structure for businesses that are just starting and are run by a single individual – or single owner, as the name suggests – because the costs and paperwork required are minimal, and all earnings become part of the owner's personal income for tax purposes. In Ohio, small businesses operating as sole proprietors employed on average 6 workers (Table 4). Sole proprietors also represented nearly 90% of all nonemployer businesses

in NEO and Ohio, according to new data released by U.S. Census Bureau in December 2020.<sup>9</sup>

Corporations outnumber sole proprietors and employ more people. Types of corporations differ primarily in the way they are taxed. In a *C-corporation*, the business pays tax on its profit, and then, shareholders must pay taxes on their dividends, therefore being taxed twice. An *S-corporation* avoids this issue, as profit (and losses) are passed directly to the owners as income and taxed only once. In Ohio, small businesses operating as C-corporations employed on average 22 people while S-corporations employed 12 (Table 4).

A *partnership* operates very similarly to a sole proprietorship with the difference that in a partnership, the business is owned by two or more people who equally contribute to the business.<sup>10</sup> In a *Limited Liability Partnership* (LLP), all partners have limited liability, protec-

Figure 2. Self-Employment Trends in NEO, 2013-2019



Source: U.S. Census. American Community Survey (ACS): Economic Annual Surveys.

<sup>9</sup> Nonemployer Statistics by Demographics (NES-D)

<sup>10</sup> U.S. Census Bureau. (2020, September 22). [County Business Patterns \(CBP\): Glossary](#)

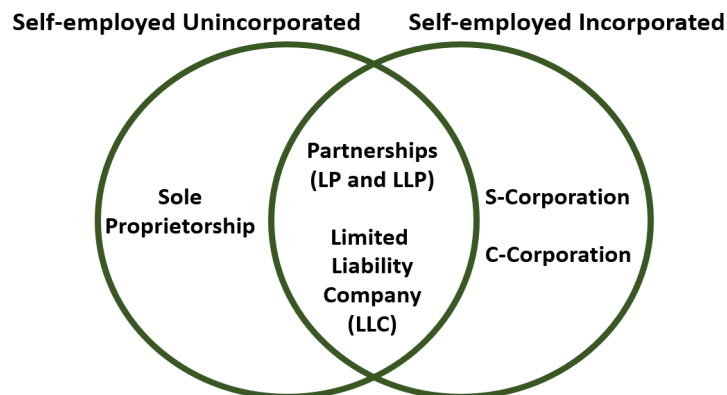
protecting them from debt against the partnership and the other partners' actions.<sup>11</sup> In Ohio, LLPs with less than 500 employees employed on average 16 workers per LLP (Table 4).

A *Limited Liability Company (LLC)* is an entity that mixes some of the characteristics of a corporation, sole proprietorship, and partnership, depending on how many members it has. For tax purposes, in the case of a single owner, an LLC owner will be treated as separate from the business but still be considered a sole proprietor unless the owner chooses to be treated as a corporation.<sup>12</sup>

## Conclusion

Small businesses play a major role in the Northeast Ohio economy and constitute the most significant source of employment in NEO. During the COVID-19 pandemic, restrictions and uncertainty have contributed to many small businesses being closed, some of them permanently.<sup>13</sup> In order to boost the local economy, small businesses will continue to require government support to be able to make a successful comeback. This brief provides data on small businesses by economic sector, size, and legal form using different sources of government statistics. It offers insights to public policymakers who may play a part in distributing economic assistance across the regional economy. ■

**Figure 3. Self-Employed Status and SBA's business types**



Source: Center for Economic Development based on SBA description

**Table 4. Small Business in Ohio by Legal Form**

Legal Form	Number of Businesses	Jobs	Jobs per Business
Sole Proprietorship	29,326	185,371	6
C-Corporations	72,450	1,593,213	22
S-Corporations	94,538	1,171,217	12
Partnerships (LLP)	30,193	471,549	16
Non-profit	24,021	415,336	17
Government	17	9,361	279
Other non-corporate	566	10,249	18
<b>TOTAL</b>	<b>251,111</b>	<b>3,851,683</b>	

Sources: 2018 U.S. Census Bureau's County Business Patterns (CBP)

**Table 2. Distribution of Businesses by Industry Sector in NEO**

Industry Sector	Nonemployer Businesses	Employed in a Small Business with less than 500 employees	Employed in a Business with over 500 employees
Educational services; Health care and social assistance	46,224	271,724	18,000
Retail trade	31,851	237,442	-
Manufacturing	6,672	230,305	31,500
Arts, entertainment, and recreation; Accommodation and food services	30,386	216,964	3,000
Professional services; Management; Administrative services	93,070	213,261	25,750
Wholesale trade	6,461	97,757	3,750
Finance and insurance; Real estate	56,216	91,521	14,750
Other services	43,127	88,697	-
Construction	42,979	77,503	2,250
Transportation and warehousing; Utilities	33,770	53,367	-
Information	4,770	25,359	3,000
Agriculture; Mining	3,836	195	-
<b>TOTAL</b>	<b>399,362</b>	<b>1,604,095</b>	<b>102,000</b>

Sources: 2018 U.S. Census Bureau's Nonemployer Statistics (NES) and County Business Patterns (CBP). Ranked by small business employment

December 2020

<sup>11</sup> Likewise, in a Limited Partnership (LP), there is one partner who holds unlimited liability while the rest have limited liability and tend to have limited control of the company.

<sup>12</sup> U.S. Internal Revenue Service (IRS). (2020, September 19). [Businesses and self-employed: Limited Liability Company \(LLC\)](#).

<sup>13</sup> Bartik, A.W., Bertrand, M., Cullen, Z., Glaeser, E.L., Luca, M., Stanton, C. (2020). The impact of COVID-19 on small business outcomes and expectations. *Proceedings of the National Academy of Sciences*. doi:10.1073/pnas.2006991117

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