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New York State Department of Taxation and Finance

Office of Tax Policy Analysis

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Small Business Report:

Statistics for Tax Year 2003

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Executive Summary

- In 2003, there were over 1.6 million small businesses operating in New York. The small business sector accounted for 99 percent of all New York businesses. The largest number of small businesses was in the 0-10 employment class. The small business sector accounted for nearly 57 percent of total employment and over 42 percent of total receipts in the State.

- This statistical report uses the Economic Development Law (Section 131) definition of a small business. A business is considered small if it has fewer than 100 employees in New York State. The report is based upon information drawn from New York State labor data and corporate tax returns as well as federal tax return information shared by the Internal Revenue Service with the Department of Taxation and Finance (the Department). In instances where the Department lacked employment information, data from State and federal sources were used to estimate employment. The estimates were performed using an imputation based on receipts. This method made it possible to use the employment characteristics of firms for which we had data to impute employment values for similar firms for which we lacked employment information.

- Companies employing no more than 25 people accounted for over 95 percent of all the small businesses. The sole proprietorship was the dominant entity type among companies with 10 or fewer employees; average annual receipts of these firms were about $49,000.

- The choice of an entity type is influenced by the industry which is the primary focus of the business. In agriculture, most small businesses were sole proprietors filing Schedule C or F. In manufacturing, 60 percent of the companies were either S or C corporations. Wholesale trade was also dominated by S and C corporations. In the finance, insurance and real estate sector, partnerships accounted for more than 35 percent of the companies.

Introduction

More than 1.6 million separate business entities operating in the State are classified as "small." It is estimated that these small businesses accounted for almost 57 percent of the total employment and over 42 percent of the total gross receipts generated in New York State in 2003.

This report provides data for New York State small businesses in tax year 2003. The methodology used in this study has changed, compared to the past studies for tax years 1995 and 1996. As a result, comparison of the data in this report with data presented in prior reports may be misleading. The section on methodology describes the process in detail.

One of the key questions in this study is: What is a "small business?" The definition of a small business used in this analysis follows the Economic Development Law definition (Section 131). A business is considered small if it has fewer than 100 employees in New York State.

Small businesses are organized in several different forms. The most prevalent organizational form for small business is the sole proprietorship. Sole proprietors may or may not employ additional workers. They file tax returns under the personal income tax for both federal and New York State purposes using federal Schedule C to compute their business profit or loss.

Many farms are also organized as a type of sole proprietorship. The farm owner may hire workers and pay them wages subject to withholding tax. The farmer will also pay tax under the personal income tax, but will use federal Schedule F to compute farm profit or loss.

Partnerships are another small business form. Partners pay income tax on their distributive share of income derived from the partnership. The partnership entity also files informational returns with the State and federal governments.

Many corporations fit the definition of "Small Business." Businesses that pay a New York State entity tax under the general business corporate franchise tax (Article 9-A) are referred to as C corporations. Small businesses, including some farms, may choose this organizational form to insulate the business owners from liability.

In 2003, general business corporations with 75 or fewer shareholders could elect subchapter S status for both federal and New York State tax purposes. This election causes the income from the S corporation to flow through from the entity to the shareholder. Each shareholder pays income tax on their pro rata share of the corporation's income. With personal income tax rates generally below corporate tax rates, S corporation status confers tax benefits on these business owners. In New York State, the S corporation entity also pays an entity level minimum tax.

Trucking and railroad companies have the option of paying tax either under Article 9 or under the general corporate franchise tax (Article 9-A). The vast majority of these companies have opted to be taxed under the general corporate franchise tax (Article 9-A). As a result, Article 9 taxpayers (telecommunications and transportation companies) are principally comprised of large businesses, and thus excluded from this analysis.

The next section discusses the methodology used in the creation of this report.

The Analysis section discusses some of the findings which can be gleaned from the tables and also presents pie charts which describe entity type, employment class, and industry class.

Appendix A provides detail on the tax relief provisions found in the 2007-2008 New York State budget.

Appendix B helps to illustrate the process of data compilation used in the creation of this report.

Methodology

Small businesses are defined as those businesses that employ fewer than 100 employees in New York. The data, readily available for determining the number of employees for 2003, is from New York State Department of Labor (Labor Department) employment data. The major data source for sole proprietors and Schedule F farmers comes from federal tax returns, shared with the Department from the IRS. Data on S corporations, partnerships, and C corporations are available from both State and federal tax returns.

The flow charts in Appendix B depict the data sources used, as well as the process of merging information from State entity tax returns with the Labor Department data and federal tax return files. Federal information supplements the State tax return information for partnerships, C corporations and S corporations. For example, C corporations are required to provide to the State information on their gross receipts only if they allocate their net income. However, many small businesses are wholly present in New York. Therefore, the information available about their gross receipts is available from the federal tax return files. The merging of the files was based on the employer identification number.

To obtain information on the number of employees, each of the tax return files was merged with the Labor Department information. The merge success rate with the Labor Department data differed among entity types, but was not completely successful for any given entity. Because the study attempts to profile the population of businesses, a complete analysis required imputing employment, based on other characteristics, for those entities which did not match successfully with the Labor Department data.

Historic ratios based on the number of employees and gross receipts were used for the taxpayers that did not successfully match the Labor Department data. Separate ratios were developed for each entity type for each industry.

Other issues worth noting are:

- As noted earlier, the historic ratios used to impute employment were developed by entity type and industry. The industry designation on the data files used to create these ratios was based on North American Industry Classification (NAIC) codes.

- Consistent with methodology used in the prior reports, Schedule C filers (sole proprietorships) with less than $10,000 in gross receipts were excluded from the analysis. This decision was an attempt to segregate "hobby" Schedule C activity from active sole proprietorship businesses. A separate table is included which reports the number of these entities, and their gross receipts class.

- For sole proprietorships, we added 1 to the actual or imputed employment to account for the sole proprietor him/her self.

- Generally, the match between sole proprietorships and Labor data has been extremely unsuccessful. Therefore, historic gross receipts were used to impute employment for all sole proprietorships.

- For partnerships, the number of partners was added to the actual or imputed employment from the Labor Department data to account for the partners employed in the entity.

Analysis

Number of Small Businesses by Employment Class

In 2003, there were 1,640,144 small businesses in New York State

As shown in Table 1, in 2003 there were 1,640,144 small businesses in New York State.

About 54 percent of small businesses were sole proprietors (Schedule C filers[1]). There were more than 42,000 small businesses with income from farming operations (Schedule F filers), although these accounted for only 2.5 percent of small businesses. Many of these represent family farms. Partnerships accounted for more than 10 percent of the small businesses.

There were over 543,000 small business corporations in New York State in 2003 comprised of S corporations and C corporations. With 332,626, S corporations accounted for about 20 percent of all New York Small Businesses, considerably more firms than the 211,037 general C corporations.

Firms with 25 or fewer employees accounted for about 95 percent of all the small business in New York. The density of the smallest firms in terms of employees is a pattern that holds for all entity types.

Small Businesses as a Percent of all Businesses, Employment, and Receipts

Table 2 shows that in 2003, it is estimated that 99 percent of all businesses in the State were small. The lowest concentration of small businesses was C corporations.

[1]Some Schedule C activity is deemed more in the nature of a hobby and excluded from this report. This “hobby” activity often generates receipts during the year requiring the filing of a Schedule C along with the taxpayer’s return, but does not indicate true business activity.

Table 1: Number of Businesses by Entity Type and Employment Class - 2002 and 2003

		Employee Class				
Entity Type		0-10	11-25	26-50	51-99	Total
Schedule C	2002	682,252	77,119	20,846	7,230	787,447
	2003	761,977	89,837	25,133	8,993	885,940
Schedule F	2002	33,079	2,127	367	82	35,655
	2003	39,034	2,316	500	167	42,017
Partnership	2002	157,479	7,111	2,813	1,481	168,884
	2003	154,504	8,654	3,558	1,808	168,524
S Corporation	2002	272,479	25,597	8,890	6,971	313,937
	2003	291,110	25,781	9,048	6,687	332,626
C Corporation	2002	179,062	20,107	7,939	4,051	211,159
	2003	179,892	19,481	7,781	3,883	211,037
All Small Businesses	2002	1,324,351	132,061	40,855	19,815	1,517,082
	2003	1,426,517	146,069	46,020	21,538	1,640,144

Table 2: Summary of Small Business By Entity Type - 2002 and 2003

Entity Type	Percent of Companies		Percent of Total Employment		Percent of Receipts	
	2002	2003	2002	2003	2002	2003
Schedule C	99.78	99.41	85.54	65.96	79.64	79.63
Schedule F	99.87	99.81	81.86	89.10	83.88	89.16
Partnership	99.03	98.82	27.20	30.10	28.12	31.15
S Corporation	99.18	99.26	68.41	69.05	70.37	73.05
C Corporation	97.95	98.05	27.55	26.14	36.38	35.16
All Entities	99.47	99.24	62.62	56.83	42.75	42.11

All small business types provided about 57 percent of the State's employment. As expected, this percentage varies significantly by entity type. Almost all, nearly 89 percent, of Schedule F farm employment was attributable to small business. Small C corporations accounted for 26 percent of total C corporation employment.

Small businesses accounted for just over 42 percent of all business receipts. This percentage varied greatly according to entity type. Small Schedule F farms accounted for almost 90 percent of farm receipts. The receipts of small C corporations were about 36 percent of the receipts of all C corporations.

Small partnerships accounted for 31 percent of total partnership receipts and 30 percent of partnership employment. Small S corporations employed 69 percent of S corporation employees and accounted for 73 percent of S corporation receipts.

Average Receipts of Small Businesses by Entity Type and Employment Class

Table 3 shows that the smallest entities by employment class had the smallest average receipts. The average level of receipts tended to increase with employment. Sole proprietorship (Schedule C) and sole proprietorship farmers (Schedule F) companies look different in that their average receipts for each employment class generally tended to be significantly less than the average receipts for the other entities. The average of receipts for each employment class for C corporations was greater than the average receipts for the same employment class of F corporations for all employer's classes.

Table 3: Average Receipts of Small Businesses by Entity Type and Employment Class - 2002 and 2003

Employee Class		Schedule C	Schedule F	Partnership	S Corporation	C Corporation	All Employees
0-10	2002	$45,204	$27,909	$45,403	$280,582	$1,328,698	$266,762
	2003	48,613	24,273	154,507	301,661	1,453,784	288,256
11-25	2002	186,106	294,373	1,170,866	2,025,690	5,024,004	1,334,033
	2003	185,000	266,979	2,356,696	2,369,696	5,613,481	1,424,548
26-50	2002	377,304	616,205	2,267,536	5,506,966	11,069,245	3,548,017
	2003	386,814	610,036	4,449,687	5,014,262	9,522,416	3,157,796
51-99	2002	738,847	1,180,259	17,472,928	5,506,966	16,758,197	6,943,859
	2003	773,278	1,219,115	9,810,879	5,958,204	25,516,871	7,606,104
All Employment Classes	2002	$74,164	$52,510	$282,632	$666,691	$2,342,799	$535,242
	2003	$79,393	$49,371	$461,874	$703,857	$2,578,014	$566,064

Table 4 Average Receipts for Schedule C With Less Than $10,000 in Gross Receipts - 2002-2003

Gross Receipts Class	Number of Businesses		Average Receipts	
	2002	2003	2002	2003
$0	5,556	6,984	NA	NA
$1 - 1,000	144,781	163,628	$586	$583
1,001 - 2,500	178,263	198,861	1,711	1,713
2,501 - 5,000	192,323	219,331	3,727	3,724
5,001 - 7,500	138,765	155,781	6,229	6,221
7,501 - 9,999	115,789	129,595	8,633	8,636
Total	775,477	874,180	$3,831	$3,822

Gross Receipts Distribution for Schedule C Filers With Gross Receipts Less Than $10,000

As shown in Table 4, nearly 875,000 New Yorkers were involved with a small business with gross receipts less than $10,000. Over 170,000 had receipts of $1,000 or less. The average level of receipts for Schedule C filers that had less than $10,000 in receipts was slightly more than $3,800.

Table 4 provides information about the very smallest sole proprietors as measured by gross receipts. These companies were excluded from the statistical analysis presented in the other tables and figures contained in this report. However, because these companies are so numerous, it is important to provide some description of their activity.

There are a number of explanations for an entity with extremely low gross receipts. Such companies could be start-up companies that were created during the year. In their first year of operation, such companies could have very low gross receipts, either because of their creation late in the year or because of the nature of initial operations. Schedule C filers may also engage in part-time business operations to supplement their wage income or their family income. Many individuals conduct business operations from their homes on a part-time basis. Frequently these operations involve the sale of nationally known and advertised retail products. Often the gross receipts of such business activity is less than $10,000. Other Schedule C activity is generated by individuals whose business is more in the nature of a hobby. This “hobby” activity often generates receipts during a year requiring the filing of a Schedule C return.

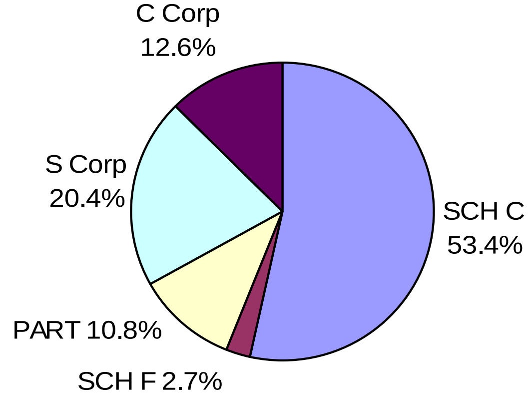
Distribution of Entity Types for Each Employment Class

Analysis of the data reveals that choice of entity type is influenced greatly by level of employment and business activity. Businesses in the various sectors of the State's economy tended to choose to organize themselves to conduct business in different ways. The study shows that the most likely choice of an entity type was strongly influenced by the intended type of economic activity in which the business was engaged. In addition, the study shows that the size of small firms in terms of employment was also an important factor in the choice of an entity type.

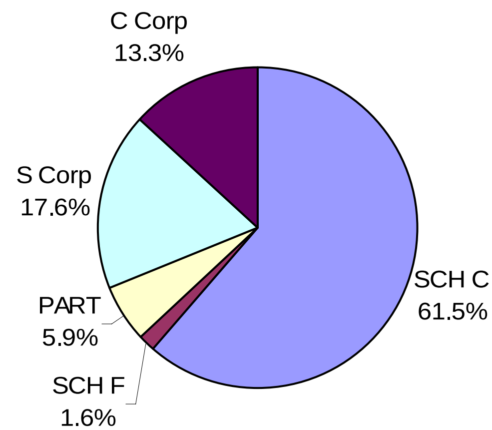
As illustrated in Figure 1-A, for the smallest businesses, as measured by having 10 or fewer employees, the most common entity type was the sole proprietorship, with over 50 percent of the companies, followed by S corporations and C corporations, with about 21 percent and 13 percent of the companies, respectively.

In the next two employment classes, 11-25 and 26-50, Figures 1-B and 1-C show that sole proprietorships were still the dominant entity type, accounting for more than 50 percent in each of the two classes. In the employment class with more than 50 employees, C corporations, S corporations and partnerships were significant. The sole proprietorship accounted for fewer business entities in this employment class.

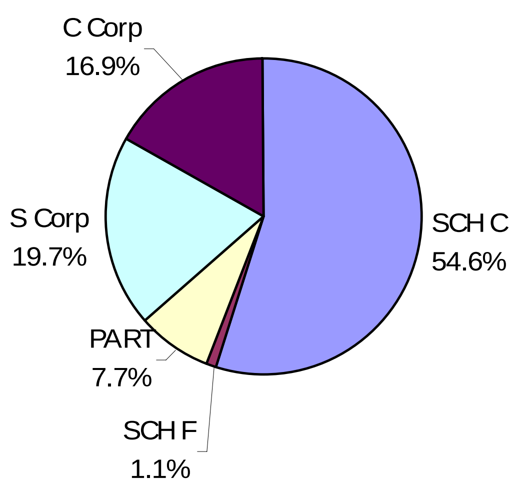
1-A Distribution of Entity Types for Employment Class 0-10



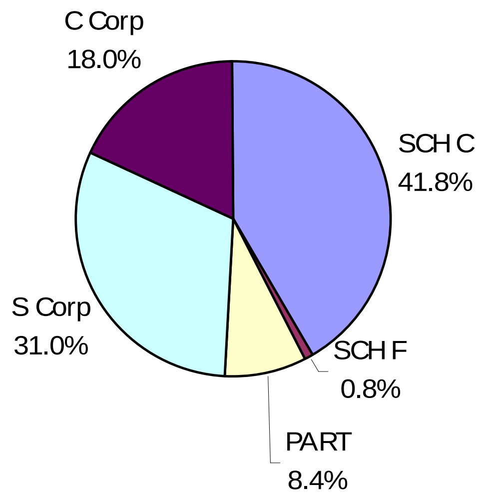
1-B Distribution of Entity Types for Employment Class 11-25



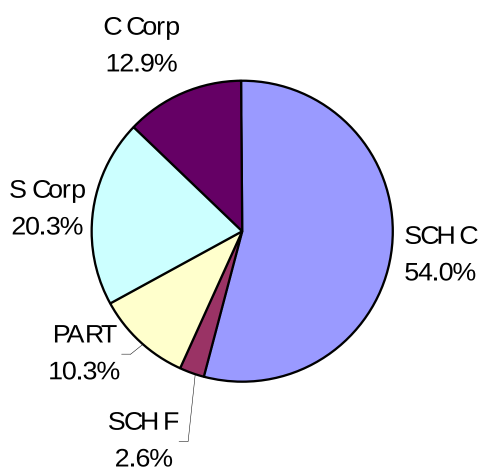
1-C Distribution of Entity Types for Employment Class 26-50



1-D Distribution of Entity Types for Employment Class 51-99



1-E Distribution of Entity Types for All Small Companies



Distribution of Entity Types for Each Industry for Small Businesses

Using tax reporting documents as the source for industry information creates unique problems in reporting agricultural industry statistics. The nature of the agricultural sector results in the reporting of agricultural activity in different ways. An understanding of how agricultural activity is captured for tax reporting is helpful in interpreting the statistics contained in the report. In recognition of family farming as a primary agricultural activity, farming conducted by sole proprietorships is reported on Schedule F. However, farming operations conducted by corporations would be captured as C corporation agricultural activity. In addition, the agricultural NAICS includes activities other than farming that support agricultural activity. As a result, farming activity conducted by a sole proprietorship would be reported on Schedule F and non-farming income classified as an agricultural activity conducted by a sole proprietorship would be reported on Schedule C. Corporate farming activity and non-farming agricultural support activities would be placed within the agricultural NAICS code and would be reported under C corporation agriculture. As shown in Figure 2-A, in the agricultural sector, most small businesses were Schedule F filers.

2-A Distribution of Entity Types for Agriculture

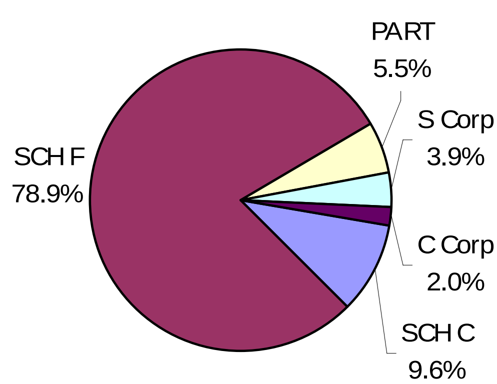


Figure 2-B shows that small businesses in the mining industry were predominantly sole proprietorships or partnerships. In the construction industry, Figure 2-C, shows about 56 percent of small construction firms were Schedule C sole proprietorships. 26 percent of small construction firms were S corporations, and 14 percent were C corporations.

In manufacturing, Figure 2-D, the C corporations were dominant with 37 percent of the small manufacturers. S corporations were 33 percent of manufacturing entities. Schedule C sole proprietorships accounted for only 24 percent of the small businesses engaged in manufacturing.

Figure 2-E shows that, in the transportation, communication and public utilities sector, Schedule C was the largest single entity type among small businesses, accounting for over 65 percent of all companies when large Article 9 companies are excluded.

The wholesale trade sector, Figure 2-F, was noteworthy for the dominance of the corporate form. Together C and S corporations accounted for close to 73 percent of small businesses. C corporations accounted for nearly 37 percent of the firms, and S corporations represented about 35 percent.

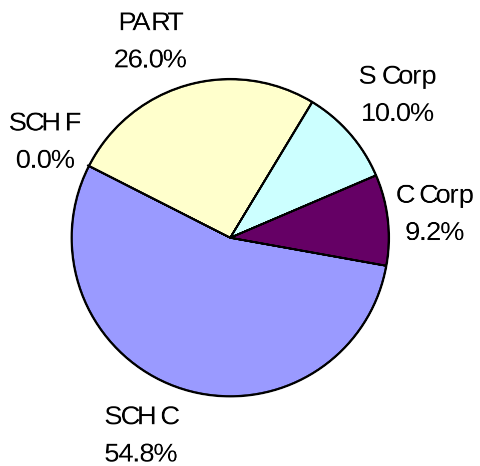
The composition of the retail trade sector, as shown in Figure 2-G, was more diverse. Sole proprietorships were predominant, representing over 40 percent of the firms, followed by S corporations with 30 percent of small businesses. About 24 percent of the firms were C corporations, and 5 percent were partnerships.

In the finance, insurance and real estate sector, Figure 2-H, the partnership form of organization was dominant among small businesses. In this sector, partnerships accounted for more than 37 percent of the small business firms. S corporations represented about 22 percent. Schedule C filers were about 26 percent, followed by C corporations with about 14 percent.

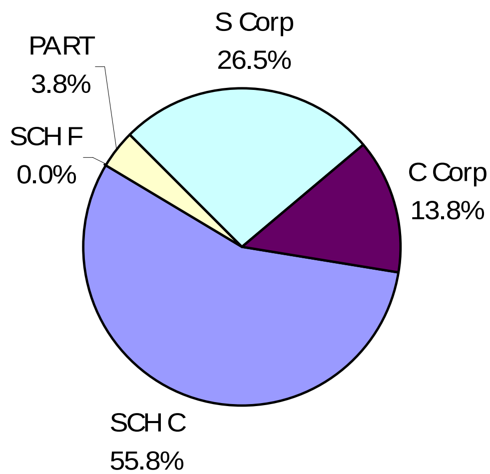
The Schedule C filer was the dominant form of enterprise in the service sector, Figure 2-I. Schedule C filers represented almost 66 percent of all firms. S and C corporations were 18 percent and 11 percent, respectively, of the firms. Partnerships represented about 5 percent of the firms.

Figure 2-J summarizes the distribution of small businesses (including unclassified industries) by entity type. It shows that more than 54 percent of small businesses in the State were sole proprietorships. About 33 percent were corporations; roughly 20 percent S corporations and 13 percent C corporations. Just over 10 percent were partnerships.

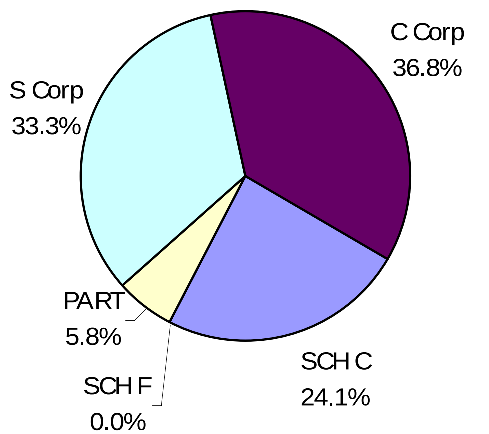
2-B Distribution of Entity Types for Mining



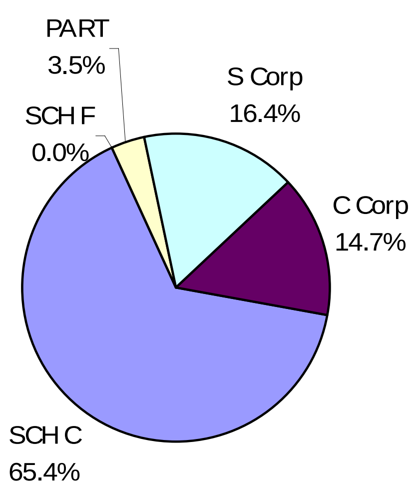
2-C Distribution of Entity Types for Construction



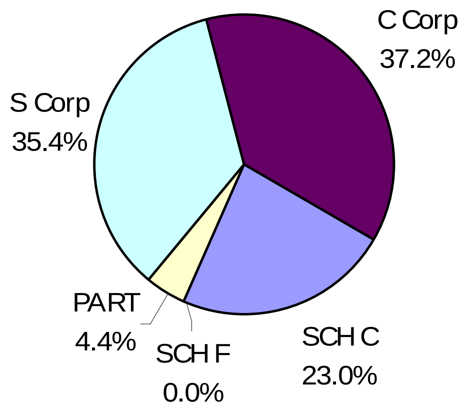
2-D Distribution of Entity Types for Manufacturing



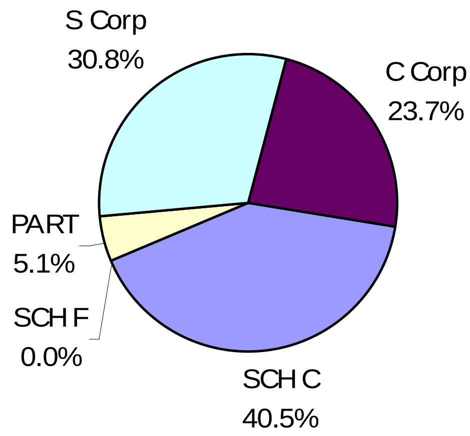
2-E Distribution of Entity Types for Trans. Comm. & Pub. Utilities



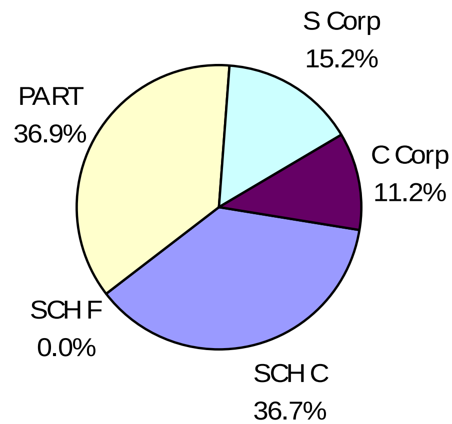
2-F Distribution of Entity Types for Wholesale Trade



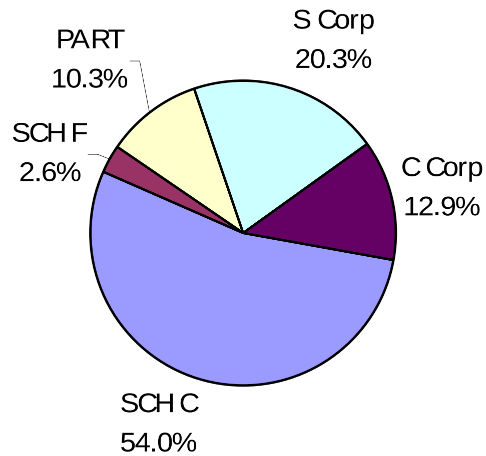
2-G Distribution of Entity Types for Retail Trade



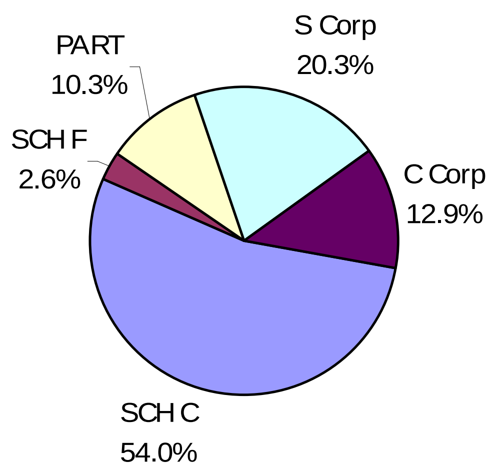
2-H Distribution of Entity Types for Finance, Insurance & Real Estate



2-I Distribution of Entity Types for Services



2-J Distribution of Entity Types for All Industries



Appendix A: Tax Changes Enacted in the 2007-08 Budget Affecting New York's Small Business

The following provisions take effect for tax years beginning on or after January 1, 2007, except for the special manufacturing tax rate which takes effect for tax years beginning on or after January 31, 2007.

Part B of Chapter 60 of the Laws of 2007 amends the Article 9-A business allocation percentage (BAP) formula so that corporations will compute their BAP solely with their receipts factor starting with tax years beginning on or after January 1, 2007. Under legislation enacted in 2005, the transition of the BAP from three-factor apportionment of property, payroll and receipts, with the receipts factor double-weighted, to single receipts factor apportionment was to be phased-in starting in 2006. The schedule called for single receipts factor apportionment for tax years beginning on or after January 1, 2008. This part accelerates the schedule by one year.

Part E of Chapter 60 of the Laws of 2007 provides that motor carriers operating motor vehicles subject to the HUT are required to register each vehicle for the HUT and obtain a certificate of registration to be kept at the carrier's place of business for all such motor vehicles. As part of the application process for this new certificate, the carrier must now also supply license plate information for each motor vehicle. The legislation also removes the requirements to display a decal on motor vehicles subject to the HUT and to carry a permit in such motor vehicles.

Part L of Chapter 60 of the Laws of 2007 requires that entities that are eligible S corporations for federal tax purposes and that have not made the election to be New York S corporations, are deemed to be New York S corporations if the corporation's investment income for the current taxable year is more than 50 percent of its federal gross income for the year. This provision does not apply to S corporations which are subject to the Bank Tax (Article 32). The provision is effective for taxable years beginning on or after January 1, 2007.

Part N of Chapter 60 of the Laws of 2007 contains several tax rate cuts for businesses, banks, and insurance companies. The cuts include:

- A reduction in the Article 9-A Corporate Franchise Tax rate on entire net income (ENI) from 7.5 percent to 7.1 percent;
- A reduction of the ENI rate to 6.5 percent for qualified New York manufacturers and emerging technology companies;
- A reduction in the Article 9-A alternative minimum taxable income rate from 2.5 percent to 1.5 percent;
- A reduction in the Article 32 Bank Tax ENI rate from 7.5 percent to 7.1 percent; and

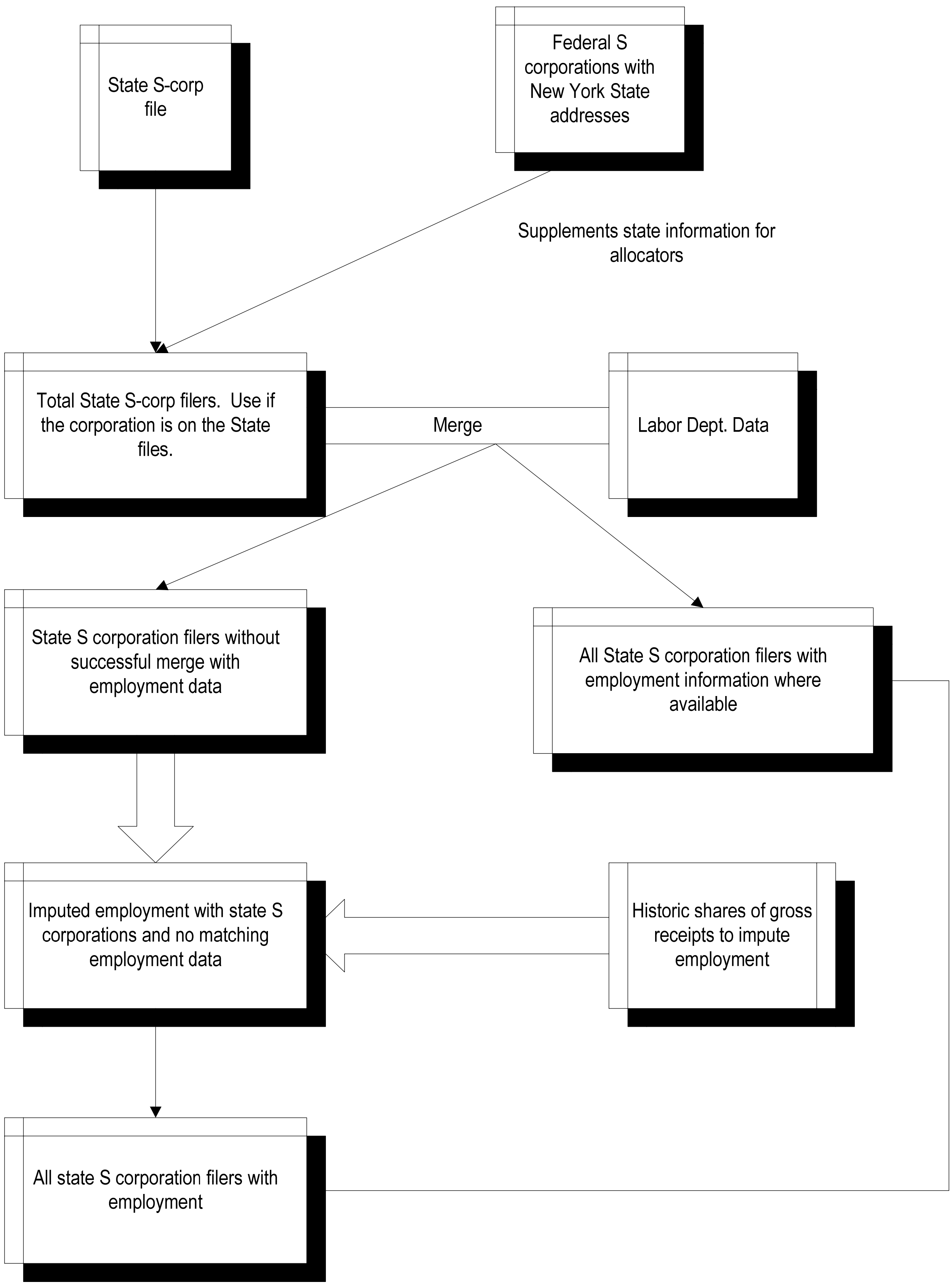
A reduction in the Article 33 Insurance Tax rate on life insurance company income from 7.5 percent to 7.1 percent.

Part N also amends the computation of the qualified small business rate recapture to properly account for the changes in the Article 9-A rate. If the ENI base is not more than $290,000, the tax rate will continue to be 6.5 percent. If the ENI base is more than $290,000 but not over $390,000, the amount of tax shall be $18,850, plus 7.1 percent of the excess of the entire net income base over $290,000 but not over $390,000, plus 4.35 percent of the excess of the ENI base over $350,000 but not over $390,000.

Appendix B: Data Compilation Flow Charts

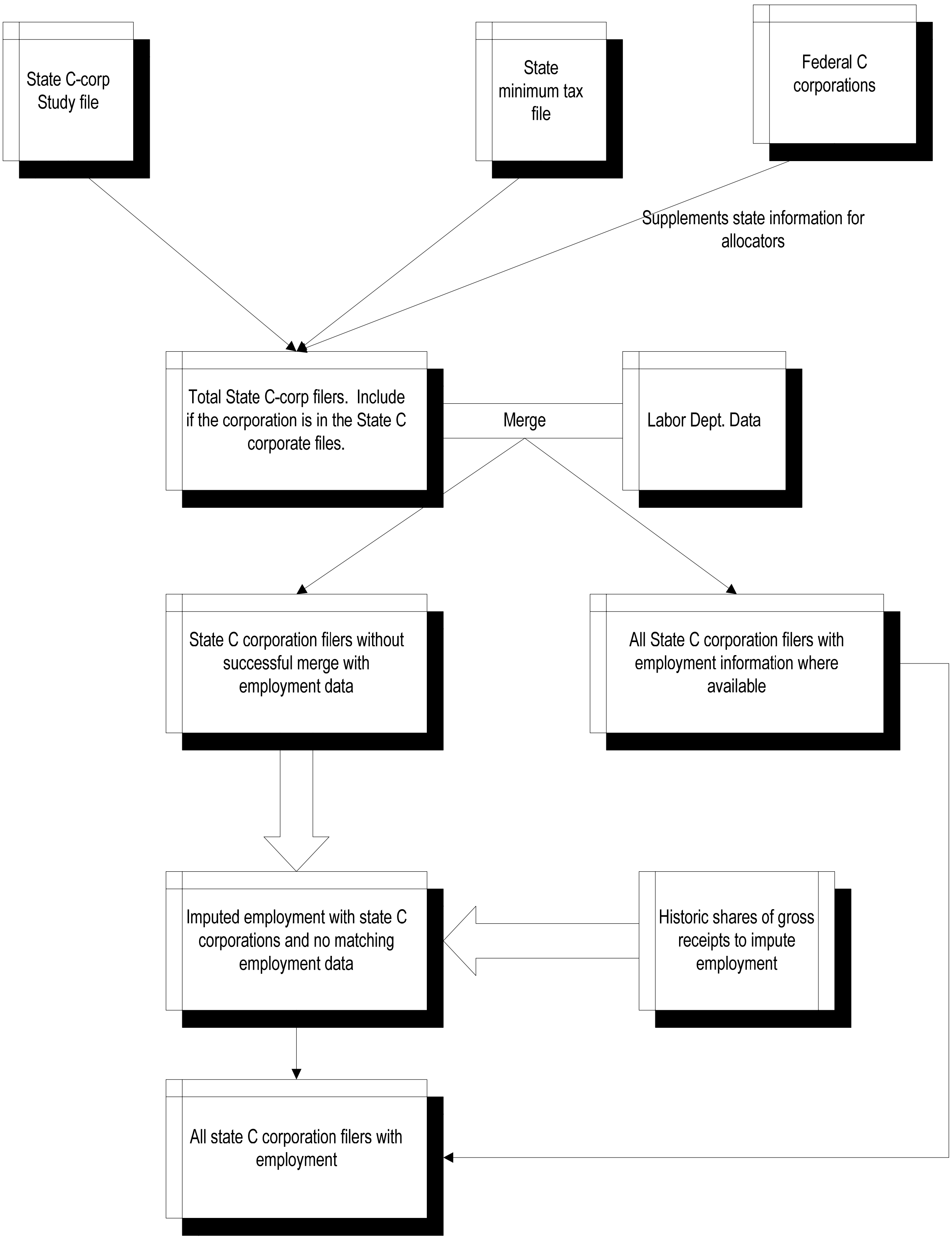
S Corporations

Development of Total S Corporation Filers with Supplemental Federal and NYS Department of Labor Employment Information



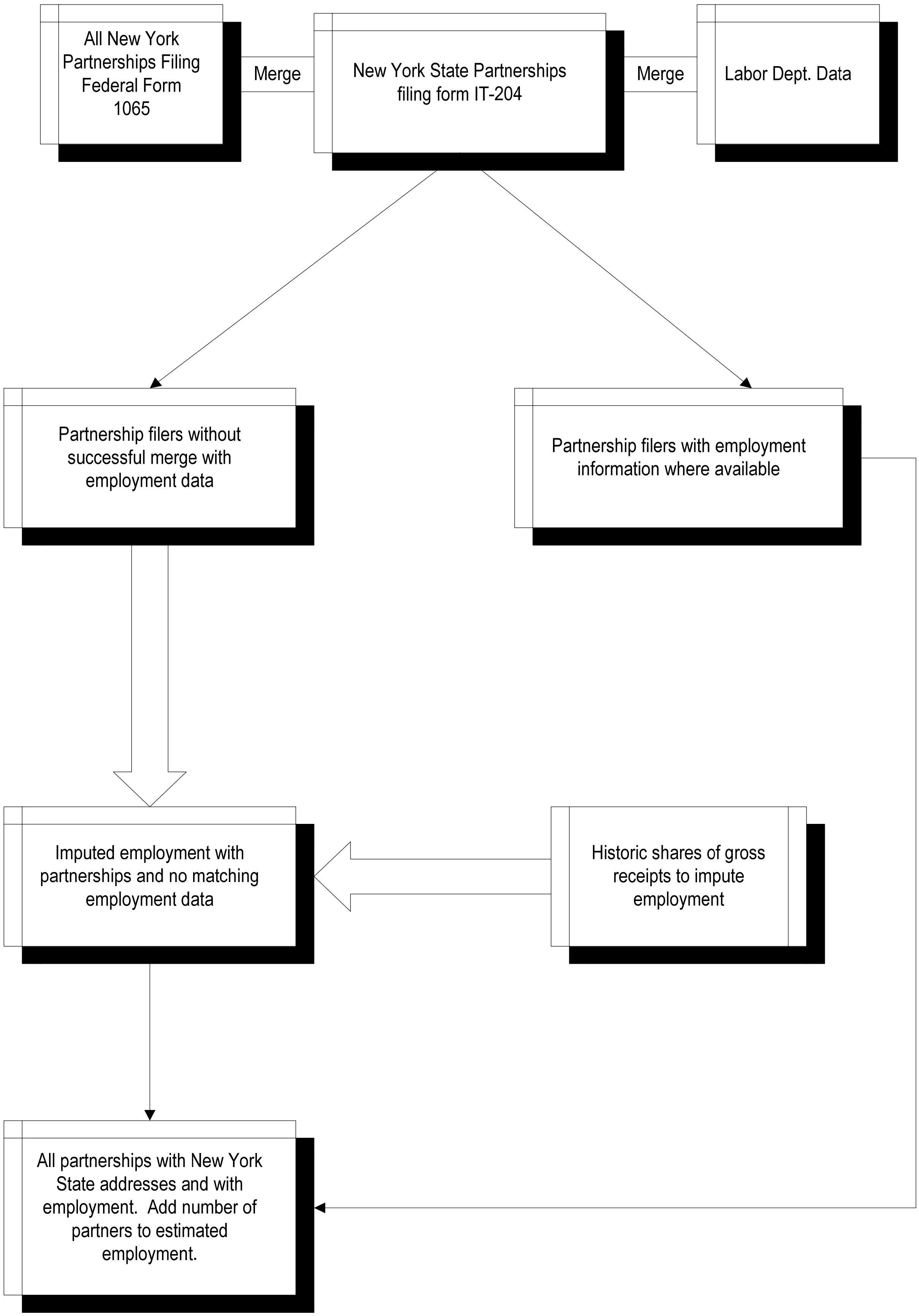
C Corporations

Development of Total C Corporation Filers with Supplemental Federal and NYS Department of Labor Employment Information



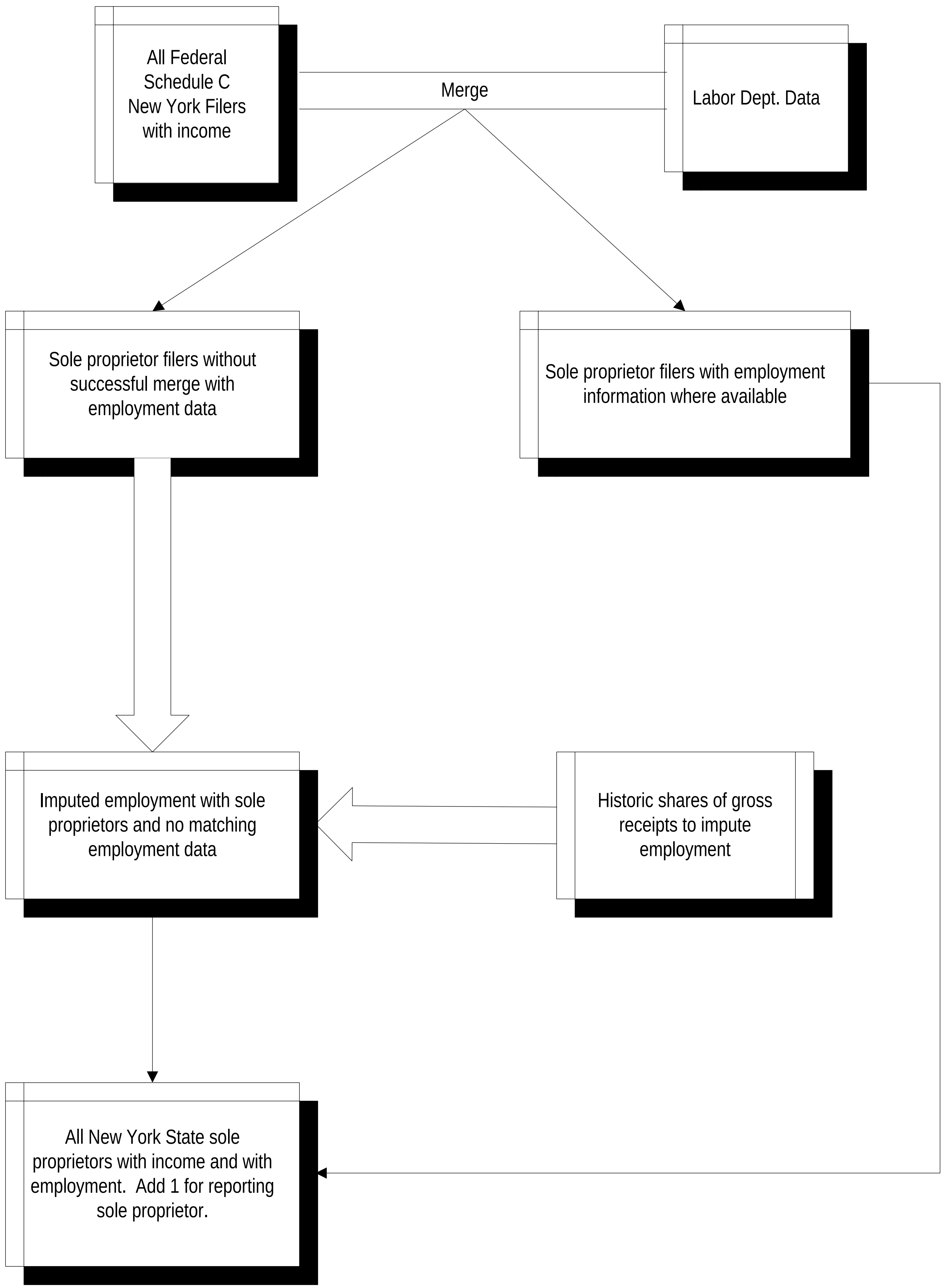
Partnerships

Development of Partnership Filers with NYS Department of Labor Employment



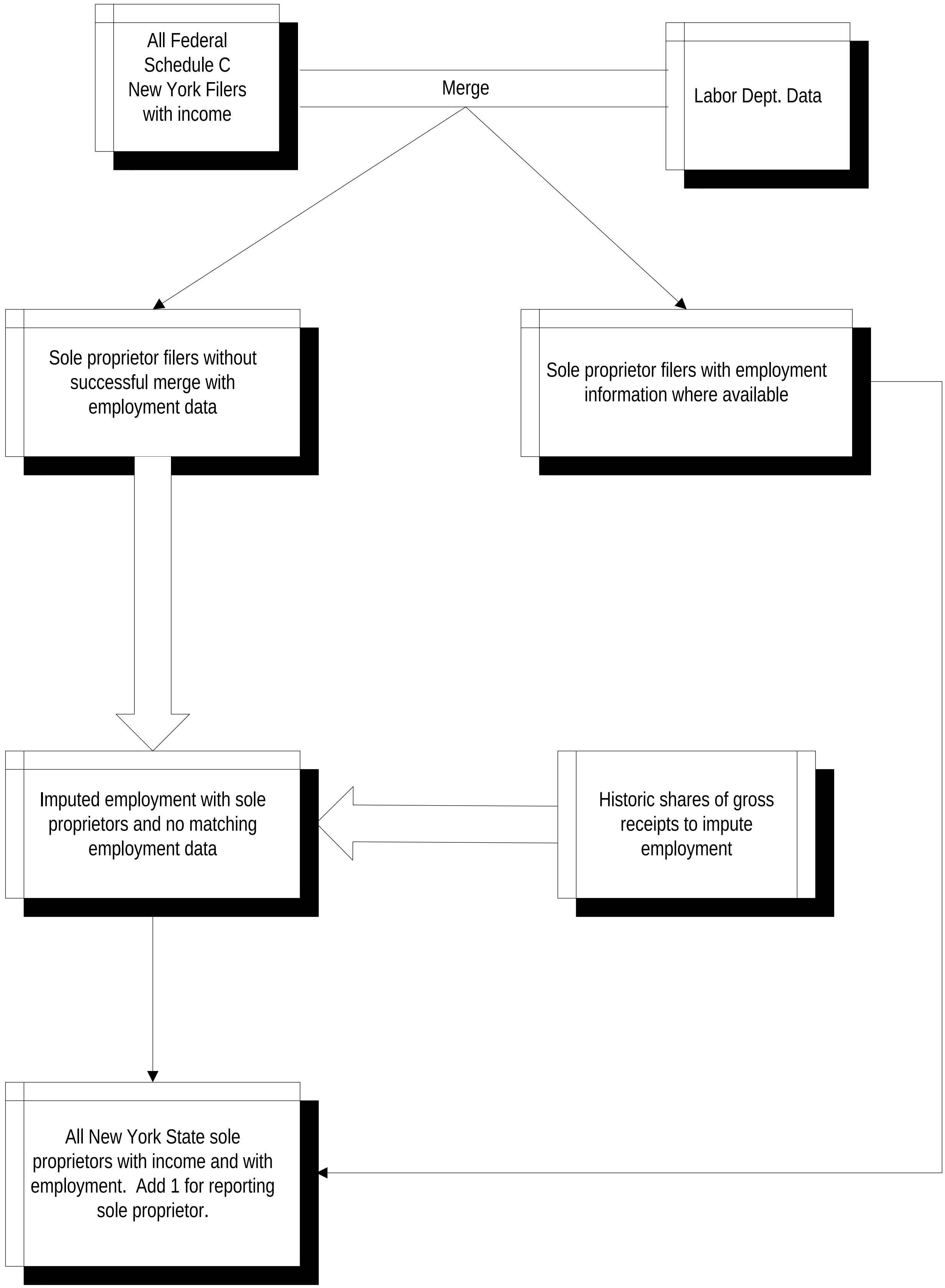
Sole Proprietors

Development of Sole Proprietor Filers with NYS Department of Labor Employment Information



Farmers

Development of Farmer Filers with NYS Department of Labor Employment Information



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