

VOICES OF SMALL BUSINESSES:  
DISCUSSION AND POLICY IMPLICATIONS

Kate Maxwell and Yasuyuki Motoyama  
Ewing Marion Kauffman Foundation

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## Executive Summary

“Small businesses” are often lauded as the backbone of the American economy. Politicians from both sides of the aisle proclaim their commitment to fostering small business in the United States and its importance. However, as is so often the case in policy debates, individual voices can be lost in high-level discussions over tax breaks and business aid programs. In the spirit of investigating the thoughts of actual business owners, we decided to examine a recent survey from Thumbtack.com, with the intent of lending some perspective and context to the debate over how best to aid small and new businesses in the United States.

When Thumbtack conducted a large-scale survey of small business owners and service providers in late 2011 and early 2012, it included this *open-ended* question: “Please let us know any experiences or thoughts you have regarding the ease of doing business in your state.”

Of the 6,730 respondents to the Thumbtack survey, 36.6 percent provided feedback to the open-ended question. This report qualitatively analyzes these business owners’ unfettered thoughts on issues they felt important and explores several themes that arose. The findings provide important insights for state policymakers when considering how to make their states appealing to and supportive of small business owners.

Several predominant trends were apparent among responses from all over the country:

- Tax rates, while important, do not significantly affect overall business friendliness and should not be the single focus for both policy discussions and state competitiveness rankings.
- Complicated tax codes and burdensome tax compliance requirements factored heavily into negative feelings toward taxes and business friendliness. Thus states should consider simplifying tax codes and creating more uniformity.
- Licensing regimes proved burdensome for small businesses, and many business owners felt that there was a distinct lack of enforcement for existing business regulations. States should only impose regulations that they are prepared and committed to enforcing.
- Additionally, many businesses complain that license requirements over multiple municipalities are troublesome. Thus, if such licenses are essential, state and local governments should simplify and unify the licensing process.
- High-quality online systems to pay taxes, register businesses, comply with regulation and find information represent an important way that states can support business owners.
- Many business owners complained that hiring new employees was difficult; however, more investigation is needed before further conclusions can be made.

These trends do not necessarily echo the narrative often told about the problems business owners face in the United States. Even in these times of difficult political and

fiscal issues, states can take concrete steps to support business owners and improve business friendliness.

## About the Thumbtack.com Small Business Survey

Thumbtack is an online platform for service providers to connect to customers. Consumers are able to enter their needs into the website and receive personalized quotes from businesses in their area within twenty-four hours. Thumbtack has more than 260,000 service professionals listed in a wide variety of sectors who either were solicited by Thumbtack or recommended by peers. Over 5,000 new service professionals join the list every week. Using their large directory of small businesses, in November and December 2011, Thumbtack, in collaboration with Kauffman Foundation, conducted an extensive survey of newly registered professionals concerning the ease of doing business in their respective states. The first round of descriptive analysis, along with state rankings, was released in early May 2012.<sup>1</sup> It received tremendous attention and was cited by over 150 media outlets, including *The Wall Street Journal*, *The Washington Post*, the *Los Angeles Times*, FOX Business, and ABC News.

This survey yielded a unique set of data and is particularly useful for three reasons. First, almost all state rankings are created based on data aggregated at the state level, such as the state sales tax rate,<sup>2</sup> the ratio of high-tech employment to other sectors,<sup>3</sup> etc. In contrast, the Thumbtack survey is collected through individual business owners and managers, and thus it reflects their voice more directly. It is worth noting that the survey has collected an unusually large number of samples, with 6,730 firms responding—a 12 percent response rate.<sup>4</sup>

Second, there are many rankings that start with ideology-based criteria and from there construct a score for each state, a method not used in the Thumbtack rankings. Scholars question the objectivity of such a method and criticize the weak internal validity of such ranking systems.<sup>5</sup> While the Thumbtack survey does not avoid the issue of potential subjectivity, it doesn't start with any assumptions about what kind of states should rank high pre-defined by specific groups or individuals. Instead, the purpose of this survey was to ask each individual directly and neutrally about the overall friendliness of his or her respective state to starting and running small businesses.<sup>6</sup>

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<sup>1</sup> Available at [www.thumbtack.com/survey](http://www.thumbtack.com/survey).

<sup>2</sup> Tax Foundation in collaboration with KPMG LLP, "State Business Tax Climate Index" (Washington, DC: Tax Foundation, 2012).

<sup>3</sup> Ross C. DeVol, et al., ed., "State technology and Science Index 2010: Enduring Lessons for the Intangible Economy (Santa Monica, CA: Milken Institute, 2011).

<sup>4</sup> In the results analyzed by Thumbtack, 6,022 responses were included. Answers were removed if key answers for the analysis were left unfinished.

<sup>5</sup> Peter Fisher, "Grading places: What Do the Business Climate Rankings Really Tell Us?" (Washington, DC: Economic Policy Institute, 2005).

<sup>6</sup> More specifically, the survey ranked states based on the following three questions: 1) In general, how would you rate your state's support of small business owners?, 2) Would you discourage or encourage someone from starting a new business in your state?, and 3) How difficult or easy do you think it is to start a business in your state?

Thus, the survey is subjective in the sense that each business owner has his or her personal opinion about the business climate, but the subjectivity inherent in this method is differentiated from the subjectivity issue in other rankings whose criteria were predetermined by specific think tanks.

Third, the survey asked the respondents to provide blank form feedback: “Please let us know any experiences or thoughts you have regarding the ease of doing business in your state.” This question does not have a leading intention but is open-ended to allow respondents to express whatever issues they felt were important. Among all respondents, 2,463 (36.6 percent) answered the question in a complete manner.<sup>7</sup>

We believe that analyzing this qualitative information is insightful for all the reasons mentioned above, and with this in mind we will explore major themes that were presented in the responses. We would like to note that the objective of this report is not to continue the ranking exercise with qualitative comments or to quantify how many respondents complained in a particular subject matter. Instead, we would like to use this information to sort out voices and issues not reflected in other survey questions and lay out in context larger structural issues faced by small business owners and managers. Table 1 represents a breakdown of attributes of respondents to several of the survey questions. Overall, the answers analyzed here are representative of the general survey, with a few exceptions.<sup>8</sup>

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<sup>7</sup> Although 3,276 of the survey respondents responded to this particular question, we excluded 813 that were filled out only partially or inappropriately.

<sup>8</sup> For more details of representation in the general survey compared to the analysis please see the appendix.

**Table 1. About the Survey Respondents**

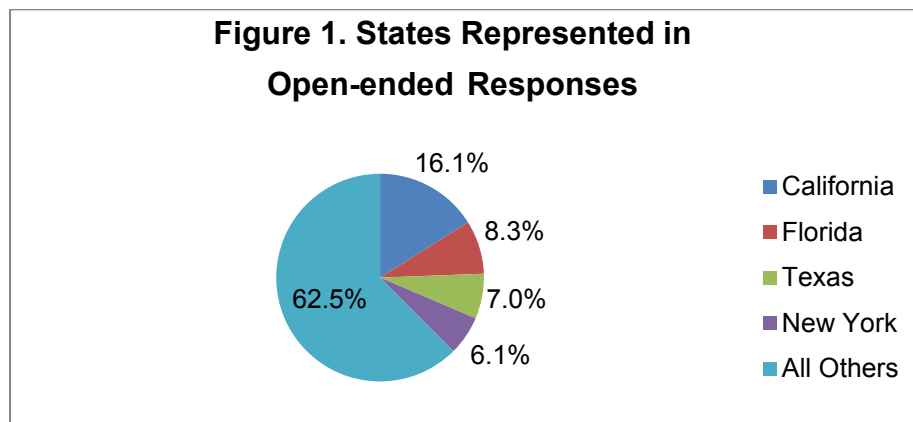
	Number of	%
<b>Political Preferences</b>		
Strong	197	8.1
Lean liberal/progressive	308	12.7
Independent	770	31.7
Lean conservative	364	15
Strong conservative	334	13.7
Other	459	18.9
Total	1927	
<b>Age</b>		
Under 25	133	5.5
25-34	630	25.8
35-44	636	26.1
45-54	566	23.2
55-64	403	16.5
65 or above	72	2.9
Total	1677	
<b>Education</b>		
Undergraduate degree	831	34
Community college	441	18
No high school	16	0.7
High school	348	14.3
Master's degree	336	13.8
Doctoral degree	99	4
Technical college	371	15.2
Total	2442	
<b>Gender</b>		
Male	1596	66.1
Female	816	33.8
Total	2412	
<b>Years of Operation</b>		
Less than 1 year	304	12.5
1-2 years	544	22.3
3-4 years	432	17.7
5 or more years	1156	47.5
Total	2132	
<b>Employees</b>		
1 to 5	2017	89.7
6 to 10	121	5.4
11 to 30	74	3.3
31-50	13	0.6
51-100	7	0.3
100+	17	0.7
Total	2249	

Males are overrepresented compared to the general survey, as are respondents who identify themselves as strongly conservative politically, while the “other” category politically is underrepresented. Respondents with a high school education also are slightly underrepresented. We find high correlations between those who identified politically conservative and those who stated taxes were too high, meaning that politically conservative people voiced more in this freestyle question and criticized high taxes.

Forty-seven percent (1,160) of responses exhibited positive attitudes<sup>9</sup> toward the business climates in their state, while 1,116 (45.3 percent) were negative and 185 (7.5 percent) were neutral.<sup>10</sup> The analysis in this report is meant to highlight both positive and negative aspects of the state business climates for small businesses.

### States and Sectors Represented in Open-ended Responses

The answers to this particular free-form question were geographically skewed toward a few populous states, similar to the entire survey (see table 7 in the appendix); however, no state was overrepresented in this analysis relative to the general survey.<sup>11</sup> California represented 16.1 percent of all responses analyzed here, while Florida, Texas, and New York accounted for 8.3 percent, 7 percent, and 6.1 percent of responses in this analysis. Figure 1 illustrates the response share.



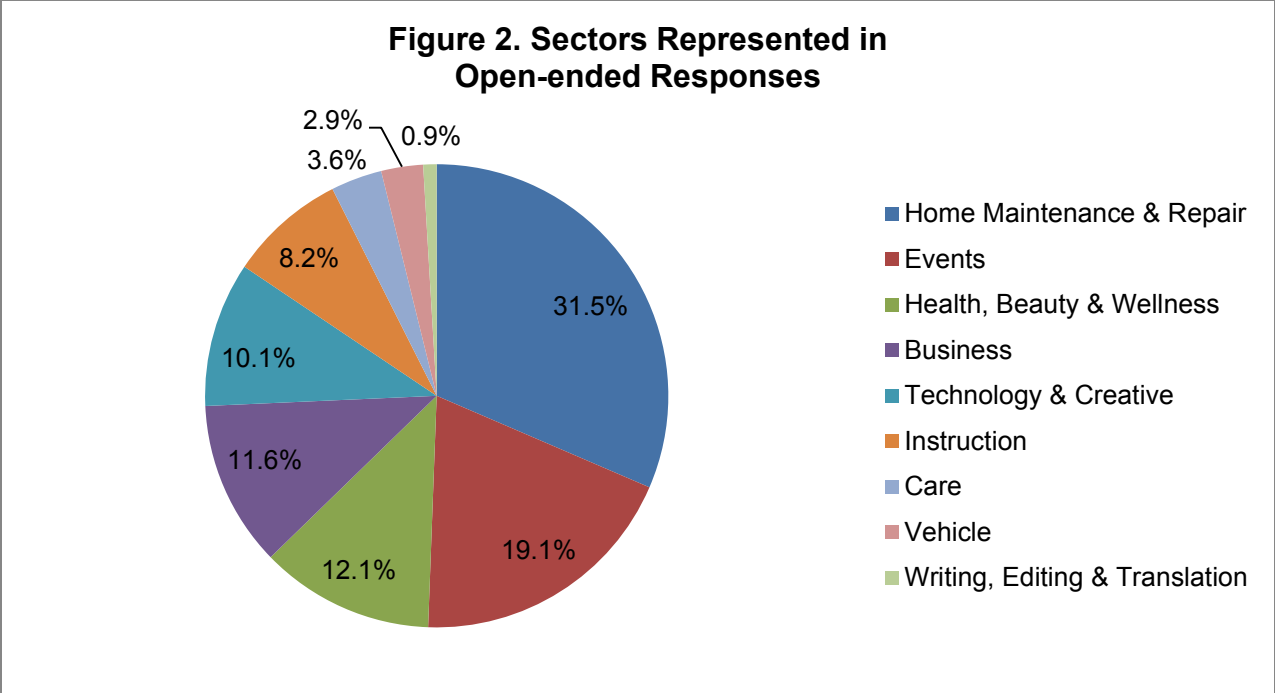
The sector breakdown also was similar to the general survey. We see that a few sectors are more widely represented than others. This is natural given that the nature of Thumbtack’s service would appeal to professionals involved in services.<sup>12</sup>

<sup>9</sup> Based on the text input, we classified responses as positive, negative, or neutral.

<sup>10</sup> Percentages were rounded.

<sup>11</sup> Differences in representations were all determined to be statistically insignificant.

<sup>12</sup> See appendix for full discussion



**Three Overarching Themes**

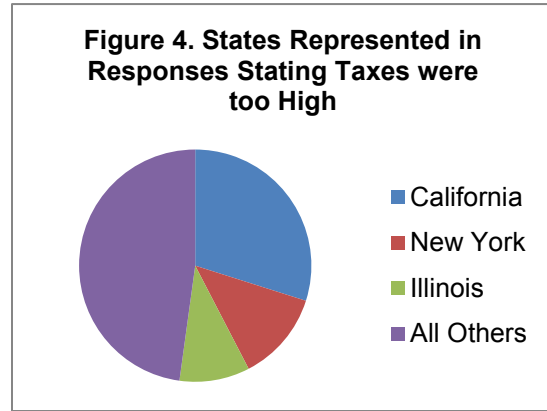
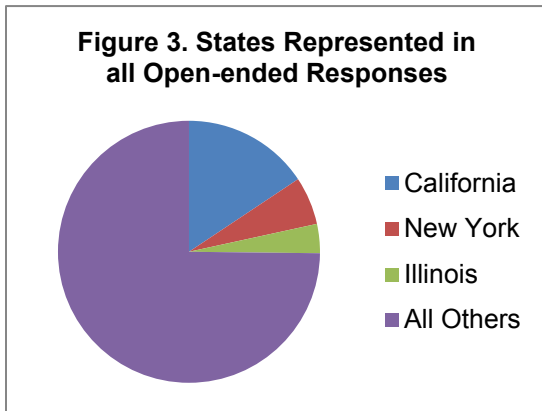
After initial analysis we identified three primary areas the responses discussed: taxation, regulation and licensing, and employment. While many of the responses adhered to the general discourse that often surrounds issues of state business environment—complaining of excessive tax rates or overinvolved government—many expressed more nuanced views of their states’ both positive and negative characteristics and provided valuable feedback to policymakers and state agencies. We will take a close look at each of these three thematic areas.

**I. Taxation**

While taxation generally is regarded as an overriding issue in assessing business friendliness, only 382 (15.5 percent) of the overall responses analyzed mentioned taxes. Of those that did, the overwhelming majority of responses—320—were negative (83 percent).

As one might expect, about half of the responses mentioning taxes stated that taxes were too high in one form or another. Generally, respondents kept it simple, saying only “taxes are high.”





California, New York, and Illinois account for more than half of all the people who reported that taxes were too high—California alone accounted for a third of such responses. All other states accounted for less than 50 percent of responses. In the area of high taxes these states received more negative responses than would be expected at random given how many people from these states responded to the open ended question about their states. This would indicate that business owners in these states feel particularly negative about their tax rates (see figures 3 and 4). Table 2 shows that the differences were statistically significant.

**Table 2. States Considered by Respondents to Have High Taxes**

States	Responses to Open-ended Question		Responses Indicating High Taxes		P-value
		%		%	
California	396	16.1	55	29.9	<b>0.0000</b>
New York	150	6.1	23	12.5	<b>0.0000</b>
Illinois	91	3.7	18	9.8	<b>0.0000</b>
All Others	<u>1893</u>	76.9	<u>88</u>	47.8	<b>0.0000</b>
Total	2530		184		

While high taxes were a relatively common complaint, we are hesitant to conclude that high taxes are necessarily harmful to businesses for several reasons. Conventional wisdom tells us that “death and taxes” are always unpopular. The critical question is whether higher tax rates hinder actual business operations. We can provide five major reasons why tax levels are not a binding constraint on businesses. First, as a fact, we should keep in mind that more than two-thirds of companies in the United States do not

pay corporate taxes, and it is unlikely that these are the rates that affect those companies.<sup>13</sup>

Second, the three states mentioned above do not have the highest corporate income or capital gains tax rates—Illinois ranks fifth, California ranks eleventh, and New York ranks seventeenth—and we do not find particularly more complaints in those states whose tax rates actually are the highest (see table 3 below). Thus we can conclude that, while the perception in these three states is that taxes are very high, the truth is that they are not, in reality, the highest (see table 3).

**Table 3. States With Highest Corporate and Income Tax Rates<sup>14</sup>**

<b>Rank</b>	<b>State</b>	<b>Corp Income Tax</b>
1	Pennsylvania	9.99
2	DC	9.98
3	Iowa	9.90
4	Minnesota	9.80
5	<b>Illinois</b>	<b>9.50</b>
11	<b>California</b>	<b>8.84</b>
17	<b>New York</b>	<b>8.31</b>

Third, this gap between the reality and intensity of complaints indicates that the overrepresentation of these three states on this subject seems to reflect business owners' ratings on the overall regulatory environment for tax codes, rather than tax rates per se. Among all the states represented in the Thumbtack survey, excluding states with fewer than ten respondents, California and New York had the lowest rating of the regulatory environment for tax codes, 2.79 and 2.80 (out of five), respectively, while Illinois had the tenth-lowest score, 2.94.

Fourth, we ran hierarchical regression models to control for various tax rates to estimate the correlations with the overall friendliness of state business climate and the regulatory environment for taxes. It bears mentioning that this differentiation in type of tax is important—not all taxes have the same effects on general welfare and business as others. The results<sup>15</sup> indicate that corporate taxes, personal taxes, and sales taxes are not statistically significant, but property taxes rate are significant. Therefore, statistically speaking, corporate and personal rates per se are not the central concern of business owners in their perception of the state business climate.

<sup>13</sup> Government Accountability Office, *Tax Administration: Comparison of the Reported Tax Liabilities of Foreign- and U.S.-Controlled Corporations, 1998-2005* (Washington DC: Government Accountability Office, 2008).

<sup>14</sup> Tax Foundation, "State Business Tax Climate Index."

<sup>15</sup> Interested readers may contact the authors regarding this analysis.

Finally, we find that business owners tend to dislike any form of taxes and complain about one after another. For example, in California the franchise tax was mentioned multiple times. As a music instructor stated, “California franchise tax imposes an unnecessary and burdensome expense for small businesses.” Across the United States, sales tax came up frequently as being “high.” A Minnesotan in the pet care industry explained, “Sales tax is high and imposed on my business services—which impacts how often people use my services since it adds to their cost. Taxes in general are high in Minnesota.”

Even in states with no corporate income tax—Nevada, Wyoming, Washington, Texas, Ohio, and South Dakota—business owners complain about taxes in other forms. For instance, “I find it very difficult in starting a new business due to all of the licensing fees, workers compensation tax, and sale tax that are unfair,” responded a cleaning service provider in Ohio. “The state of Ohio has the most difficult payroll taxes I’ve seen across the nation. It also has difficult sales and use tax laws,” reported a legal services business in Ohio, and “taxed to death, state taxes, county licensing fees, city taxes, and licensing fees ... it’s too much,” said a photographer in Washington. Thus, in many cases, the issue does not seem to be tax rates themselves, but various forms of taxes and the ease of understanding the codes, which we will discuss in the next section.

The reality of tax rates’ importance encourages us to give further attention to the more than a quarter of the comments (eighty-nine) on taxes that stated they were difficult to pay or understand. People complained about myriad problems, but one of the things they complained about most broadly was a lack of information on paying taxes and the state’s non-responsiveness to their inquiries and problems. In California, a business owner in sales and marketing said, “Taxes are convoluted a nightmarish [sic] (not that they are high). Support? What support/resources/information?” Several complained that the websites for paying taxes were difficult and that state employees proved less than knowledgeable, regularly committing errors themselves.

A crafts and hobbies instructor from California clearly described the problem: “It has become so tedious and cumbersome to comply with sales tax regulation, it is hardly worth for us now to sale [sic] anything at all...Paying sales taxes is done exclusively on their website, charging an extra fee...website that is dysfunctional by their own admission...” Another crafts and hobbies instructor in Florida reported that the state department of revenue is “both confusing and confused itself. Every call to them nets a different answer to questions, but none with any authority.”

Beyond the issue of finding information and dealing with the state, business owners complain of overall complexity. First, taxes are assessed by multiple levels of political jurisdiction (local, county, state). A North Carolina sales and marketing professional complained that “State/County/City tax codes make it very difficult for a small business to prosper...” We find this statement of “too many taxes” (in contrast to “taxes too high”) in a number of states, such as California, Kentucky, Missouri, New York, Ohio, Oregon, Pennsylvania, Texas, and Washington.

Second, many respondents stated that tax rules change too often. In California, a maintenance man responded that “I consider myself fairly good at math, but every sales tax return filed comes back corrected (not because I made a mistake, but because the state changed tax rates once and sometimes twice in the month).”

Issues regarding the sales tax system came up more frequently than any other specific tax. In Washington, a business owner in the technology industry reports, “The sales tax system is a mess. If I consult with a customer over the phone it is one type of tax, but the minute I physically touch the computer it is another. To hire an employee, you have to register with 5 separate agencies.” In Virginia, a sales and marketing business stated, “I am not against paying taxes, but the way taxes are levied is arbitrary and unfair...”

Not all the responses concerning taxes were negative. Many expressed relief in states where some sort of major tax was missing, like income or sales tax. Praise was given to Oregon, Texas, Florida, New Hampshire, and Washington by business owners who enjoyed the absence of certain taxes. In New Hampshire, one of five states without a sales tax, one individual said, “The advantage of doing business in New Hampshire of the New England states is that NH doesn't have a state sales tax. This allows small NH businesses to buy and sell at a slightly more competitive rate than our MA neighbors.” In Oregon, a pet care professional stated, “There isn't any sales tax in Oregon. That is [a] huge thing in making it easy to start a business and to operate a business.”

At the same time, people also praised systems that increased ease, such as online filing and payment. A computer instructor in Ohio said that “Getting our state sales tax account setup was pretty straightforward with a great online system for managing and paying taxes.” A Wisconsin business owner in the health sector responded that “Tax forms have been labor intensive in the past but Wisconsin has implemented a new web site that is very user friendly. They also offer seminars to understand how to use the site to be able to pay the various taxes.” Business owners in Florida, Massachusetts, South Carolina, and New Jersey mentioned similar systems. Other people just mentioned ease of payment. In Tennessee, a realtor stated that “the taxes [for] business...are easy to calculate and to pay. The state was helpful.” While we do not necessarily conclude that the online tax system in these states is particularly better than other states, we can point out that business owners do value easy-to-use online tax systems.

These findings with regard to taxes lead us to a few conclusions. First, it is noteworthy that tax levels, while significant, are not always the most important factor in creating a positive environment for small businesses and, in fact, rates do not affect the overall friendliness of the environment. This is particularly important because emphasis often is placed on tax rates alone, or on the presence of a specific type of tax, like income. The Tax Foundation releases an annual report that ranks states based upon their tax friendliness and receives a relatively large amount of attention. Although they thoroughly investigate tax rates and various types of taxes, their attention to ease of understanding of paying taxes is low to nonexistent in most areas. The report gives credit to states for the adoption of federal standards in areas like income taxes and

corporate taxes that decrease tax complexity. However, we are unaware of anything in their rankings, or any other sort of evaluation system, that takes into account information availability, online payment, website quality, experience with the taxation bureau, or uniformity of taxes across localities. These factors appear to be important to business owners and entrepreneurs.

Given that any change to taxation levels is often a political nonstarter, simplifying tax codes and payment systems is potentially a relatively low-cost option for states to support small business owners without sacrificing revenue or getting into a political quagmire. Such reforms could include efforts to ease the complication of the sales tax. The 2008 Small Business Economy report shows that state sales taxes represent 22.9 percent of the state tax burden, and that the tax is often complicated. Measures promoted by the Streamlined Sales Tax Project (SSTP), which include uniformity in the state and local tax bases, uniformity of major tax base definitions, central electronic registration for all member states, and general simplification of state and local taxes, potentially offer a partial solution to these woes. Anecdotally, most of the positive or negative reviews of sales taxes (though not all) correlate to which states are and are not full members of the SSTP. A measure similar to the SSTP across a variety of taxes could potentially ease the burden of tax compliance on small businesses—reducing or eliminating taxes is not the only way to accomplish this end.

## **II. Regulation**

Regulation and licensing also were consistent topics of discussion. Fully 799 (28.9 percent) of answers analyzed mentioned regulation or licensing. The responses on this topic were once again mostly negative: 600 (75.1 percent) of responses that mentioned regulation or licensing were negative. Of those responses mentioning regulation, 453 (80.9 percent) were negative, and of those mentioning licensing specifically, 147 (61.5 percent) were negative.

When one breaks down the regulation responses between negative and positive, California, Massachusetts, New York, and Washington were overrepresented in the negative category (see table 4).<sup>16</sup> Such states received a statistically unlikely share of negative responses mentioning regulation in the open-ended question compared to their representation in the overall survey. This would indicate that professionals in these states in particular are dissatisfied with current regulation on their businesses.

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<sup>16</sup> For instance, Massachusetts represented only 2.6 percent of responses analyzed and 4.3 percent of regulation responses, while California represented a full 20.4 percent of regulation responses and only 16.1 percent of all responses analyzed.

**Table 4. States Getting Negative Responses for Regulation**

States	Responses to Open-ended Question		Responses to Entire Survey		P-value
		%		%	
Washington	19	4.2	91	3.7	<b>0.0048</b>
New York	38	8.4	150	6.1	<b>0.0498</b>
Massachusetts	23	5.1	63	2.6	<b>0.0011</b>
California	101	22.4	396	16.1	<b>0.0004</b>
Total	452		4263		

In terms of sectors, home maintenance was heavily overrepresented within these responses. This isn't necessarily surprising. Professionals in the home maintenance industry engage in relatively complicated transactions that involve physical work and more liability compared to a professional managing a consulting or retail operation, for example. Technology, events, and health and beauty were slightly underrepresented.

**Table 5. Sectors Getting Negative Responses for Regulation**

States	Responses to Open-ended Question		Responses to Entire Survey		P-value
		%		%	
Business	65	11.6	285	11.57	
Care	21	3.8	88	3.57	
Events	85	15.1	471	19.12	0.0204
Health, Beauty & Wellness	43	7.7	299	12.14	0.0015
Home Maintenance & Repair	231	41.3	775	31.5	.0.0000
Instruction	47	8.4	201	8.2	
Technology & Creative	44	7.9	249	10.1	0.0908
Vehicle	22	3.9	72	2.9	
Writing, Editing & Translation	2	0.4	23	0.9	

Of the responses that mentioned licensing specifically, New York and Texas were underrepresented, while Tennessee, Nevada, South Carolina, Arizona, Washington, California, and Florida all were overrepresented slightly. Home maintenance, again, and care were overrepresented sectors, and events, instruction, and technology were underrepresented. While this bears mentioning, it is important to note that the licensing category was more mixed in terms of negative and positive trends. Given the relatively

even split, just a few answers in the positive or negative category could result in differences in representation but would not necessarily indicate a broad trend.

Many of the negative responses for both licensing requirements and regulation were quite general. Several people complained that there simply was too much regulation or too many licensing requirements. A music industry professional in Virginia explained, “To[o] many processes to go through with way to[o] many regulations to start a small business.” An events sector respondent in Pennsylvania stated tersely, “LOTS of regulations and compliance concerns.” Others complained that regulatory processes and licenses were expensive and sluggish. A California vehicle repairman reported that, “When applying for any kind of license or permit it takes months and there’s too many loopholes.” A moving business owner in Florida states, “The state nickels and dimes you to death on licensing, permitting. City and county government are more concerned about fees than bringing in business.”

We discovered several additional important trends among responses mentioning licensing and regulation. First, it is important to note that, generally, respondents found it easy and hassle-free to establish their businesses—374 (12 percent) of responses analyzed specifically mentioned the process of establishing their businesses, of which 300 (80 percent) were positive.

Of those who were negative about the process, twenty-nine (40 percent) were in New York, Massachusetts, and California, with fourteen (20 percent) in California alone. Texas, Arizona, and Georgia all were overrepresented in positive responses toward establishing a business.<sup>17</sup> A business owner in the transportation sector said, “Texas State is very supporting [sic] for small business, it is so easy to start a small business, for example in Houston TX, the city has a one stop business center that provides all kinds of support to start or to expand your small business, they also have free of charge advisers who can provide owners with valuable advice, guidance and recommendations. The city also provides with the collaboration of the University of Houston classes ongoing training for small business owner in different business sectors.” An architecture and home engineering professional in Georgia reported, “Register[ing] a business is easy and doesn't have big fees and you can do all paper work on line and even provide your business a tax ID number all on line and in [a] matter of a few hours.” These states received praised for online systems, low set-up fees, quick processing, and informative employees and websites.

Thus, we should note that, on the whole, impediments or problems to *creating* a business are not driving the negative responses toward regulation and licensing in this survey, but rather the regulation and licensing regimes as they apply to *existing* businesses. Many echoed the sentiment of this Pennsylvania business owner, who said, “I find it very easy to start a business in my state, but it is very hard to keep and maintain.”

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<sup>17</sup> Texas most significantly represented 14.3 percent of positive responses (forty-three) about business establishment, but only 7.0 percent of total responses analyzed.

In all these categories, many people either criticized or praised the availability and online accessibility of forms and other information. Many people who considered business establishment to be easy mentioned the online systems. An instructor in Nevada said, "Starting a business here was simple and the online portal to do so was user friendly and I was up and running in a single afternoon." Others with negative feelings about licensing, establishment, and regulation mentioned poor websites. A Kentucky sales and marketing professional said, "Kentucky government does try to support small business owners, but the .gov website is confusing and the entire process of setting up documents, licensing and paying the myriad of fees needs to be streamlined...." A Missouri tech repair business owner stated, "The state of Missouri's websites are not useful and make it hard for first time business owners get setup without confusion. They offer specific forms and files, that upon download, are not labeled in any understandable way. You find yourself clicking in circles to find out exactly what is necessary to setup and maintain your specific business..."

Further, several people reported that they have to access multiple websites to get through the process. In Washington, a sales professional reported, "I wish there was only one simple website as opposed to several websites about starting a small business. Makes it very confusing." Online resources are both enjoyed where present and desired where absent. It is clear that business owners value being able to effectively utilize the Internet to gather information and interact with the state.

Two other particularly interesting themes emerged across many states. The first was that regulation is not necessarily too ardent or too ubiquitous but that regulatory regimes are spread amongst local, county, and state levels, and secondly, they are actually under-enforced. Many people complained that regulations were layered upon one another and that their businesses were contending with many different sets of not only federal and state regulations, but multiple county and local regulations as well. Respondents also mentioned that every county—and every locality within the county—required different licenses and approvals in order to operate. A fitness business owner working in California described the experience: "I have to get a license for one thing, another license for a slight variation on something else, and there are so many fees ...The individual cities all want business licenses." A photography business owner in Indiana said, "The problem is that there are so many organizations that create regulation—many overlap...So, you could be under similar requirements (each different) from eight agencies or delegated organizations...You shouldn't have to [have] several 'audits' from all (usually five to three) of the government agencies...". Illustrating the absurdity of such regimes, a contractor in Florida described his own experience: "I am [a] State Certified Building Contractor. However in order to work in any municipality, I must again register, pay a fee, and be further regulated. I can build an entire house, foundation to roof top. But...if your roof leaks I am not allowed to pull a permit and fix it. A roofer (license is junior to my level) must do that. If you want your roof strapped against hurricanes the roofer must hire a building contractor..." Clearly such redundancies not only create confusion but also waste resources for both the government and business owner.



Many respondents also complained that regulations and licensing regimes existed but were not enforced. In particular, many contractors in home maintenance and repair complained that their states do not enforce licensing requirements. One in California reported that “Professionals like myself have to compete with fly by night workers...underbidding by these guys is a big problem...Clients looking for deals are getting them and poor workmanship...” Another in California said that “unlicensed contractors are working the largest share of industry and it is exceptionally difficult to either be competitive or obtain a legal contract...” Similar sentiments are expressed in event-related and health, beauty, and wellness industries. Such a system creates both risks for consumers and moral hazard issues for service providers.

In considering the broad spectrum of regulatory and licensing issues discussed amongst respondents, we can draw several conclusions. First, with the exception of California, we did not find complaints about establishing a business being too arduous. Issues identified here with regulatory regimes stem mostly from interaction with the state after the establishment process. This would seem to indicate that business owners in this sample are not unhappy with the existing processes to start businesses but with their ability to conform to regulation after establishment. States should consider whether mechanisms exist to help businesses conform and understand regulations as they apply to existing operations and whether those mechanisms are sufficient. One respondent in the home repair industry in California articulated such a solution: “Municipalities (Federal, State, County, City) need to make everything simplified, easier and quicker. Too many forms to fill and hoops to jump through... Matter of fact, there should only be one site you go to [to] set up a business and the information is automatically sent to all gov’t (federal, state, county, city) at the same time....”

Second, one way to better support existing and new businesses is to make compliance easier. This can happen in two different but interrelated ways. Currently, layers of regulations are spread across local, county, and state levels and can vary between localities and counties. This is confusing for business owners and for officials themselves. States first should push to establish more uniform standards among these entities. The survey feedback also tells us that websites are an excellent resource for business owners to gather information in a low-cost manner. Putting resources into designing and maintaining clear websites is one way states can help to both organize and clarify regulatory structure. Conformity among different entities and a clear website for regulatory guidelines would make regulatory enforcement simpler and lower compliance costs for businesses, especially ones that operate in multiple areas.

Third, states need to evaluate and reconsider their licensing and enforcement regimes. If licensing is required, especially with fees and permits, lack of enforcement becomes an important issue in terms of fairness. If a state deems a profession or particular activity worthy of regulatory focus, then it must commit to enforcing the rules and the penalties for noncompliance. Otherwise, the state has established a system that actively encourages moral hazard to the detriment of those businesses that do comply. More important, there is a broader issue at the heart of licensing: while the original purpose is to guarantee the minimum quality of service to customers, it may reduce competition

and creates barriers to entry.<sup>18</sup> Up to 30 percent of occupations in the United States are licensed at this time, and the median number of licenses per state is eighty-eight. This includes the licensing of doctors and lawyers but also other occupations, such as yacht brokers, cemetery staff, athlete agents, pawnbrokers, secondhand precious metal dealers, and sightseeing guides.<sup>19</sup> This further indicates that city, county, and state governments may have been expanding licensing requirements to generate revenue under the guise of quality assurance. Without enforcement, a licensing regime is essentially purposeless and incurs economic costs without providing the intended benefits. Additionally, past research by the most prominent occupational licensing scholar has found little correlation between licensing and improved service quality measured by malpractice rates or complaints to state licensing boards.<sup>20</sup> States should reconsider their use of licensing regimes. If enforcement of a regulation is undesirable or unimportant, states should explore removing it.

### III. Employment

Employment is a particularly important topic in today's economy, yet responses to the open-ended question contained consistent complaints that state policies made it difficult for businesses to hire and add employees. The most prevalent theme across states were complaints centered on various required benefits or insurance, from healthcare mandates to unemployment insurance to worker's compensation. A California business owner in the wedding services industry stated, "I cannot afford to hire staff and grow my business because of California's higher workers comp premiums and high insurance premiums. Until I can afford to pay all of the insurance fees associated with an employee, I will be working on my own." Another owner in the cleaning sector in Florida said, "The most difficult obstacle is the workers comp requirements for our lines of business. The state considers us the same level of risk as a construction business." An architecture and engineering industry business owner in Kentucky reported that "Workmans' comp policies are hard to acquire and are extremely high in cost to start and continue." The positive answers were few and often mentioned that the states were "right to work."

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<sup>18</sup> Morris M. Kleiner, "Occupational Licensing: Protecting the Public Interest or Protectionism?" policy paper no. 2011-009, W.E. Upjohn Institute for Employment Research, 2011, [http://research.upjohn.org/up\\_policypapers/9/](http://research.upjohn.org/up_policypapers/9/).

<sup>19</sup> Matthew Yglesias, "Licensed to Decorate," *Slate*, May 20, 2012, and Yglesias, "Is Unlicensing Yacht Dealing a 'Serious Threat' to the Welfare of the People of Florida?" *Think Progress*, November 9, 2010.

<sup>20</sup> Kleiner, *Licensing Occupations: Ensuring Quality or Restricting Competition?* (Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2006),

[www.upjohn.org/Publications/Titles/LicensingOccupationsEnsuringQualityorRestrictingCompetition](http://www.upjohn.org/Publications/Titles/LicensingOccupationsEnsuringQualityorRestrictingCompetition);

Morris M. Kleiner, and Robert T. Kudrle, "Does regulation affect economic outcomes? The case of dentistry," *Journal of Law and Economics* 43 (2000), 547-82; Kleiner and Richard Todd, "Mortgage broker regulations that matter: Analyzing earnings, employment, and outcomes for consumers," NBER working paper, National Bureau of Economic Research, 2007.

Statistically, California is overrepresented with twenty-one responses (27.9 percent). By sector, home maintenance and repair represented almost half of the responses (thirty-four) and was overrepresented relative to the overall survey. Many industries in home maintenance and repair, including construction, architecture, repair, and others are subject to their own set of specific workers' laws. The Occupational Safety and Health Administration has extensive policies that apply solely to companies in this area. We can reasonably assume that these types of policies are driving the negative response. A policy that makes it difficult to hire employees can be costly to employers and the economy at large. However, many of the policies mentioned within the complaints are important to protecting both employees and employers. It is obviously not possible to specify an easy balance protecting employee rights and employer flexibility. Yet, given the prevalence of the complaints, workers' compensation policies across the country clearly need to be examined. This is not to say they should be relaxed, but simply that they should be the subject of further inquiry and investigation.

## **Implications of the Feedback**

The results of this analysis allow us to better understand in context the direct feedback of small business owners across the nation. We circumvented some of the pitfalls of traditional policy analysis by eliminating preconceived ideas about what business owners think is important. This does not make the conclusions here more valid than other approaches, but it does lend a unique point of view that is helpful to policymakers and provides direction for further investigation. From the business owners' feedback we have formulated several policy recommendations for states interested in supporting a business-friendly environment, especially as it pertains to small businesses:

- Taxation
  - Tax rates, while important, do not significantly affect overall business friendliness, and those rates should not be the single focus for both policy discussion and state competitiveness ranking.
  - States should consider simplifying tax codes, especially sales tax codes, and creating more uniformity among local, county, and state policies.
  - States should implement easily understood online systems with clear information on the tax code and a mechanism to manage and pay business taxes via the Internet.
  - Telephone or email inquiries about taxes should be handled by a single agency with a clear answer. If different branches are involved they should provide coherent, consistent and authoritative answers.
- Regulation and licensing
  - States should make compliance with regulation easier by pushing for conformity among municipal, county, and statewide regulation. License or permission requirements by multiple cities and counties will be cumbersome to businesses, and states can help reduce this burden.

- States should establish a single, easily understood website where individuals can establish a business and see all relevant regulatory policies for their establishment.
- States should evaluate their licensing regimes and enforcement. If licensing is vital to provide quality assurance, states should enforce it. If states cannot enforce it, they should disregard such licensing schemes, as they hurt competition.
- Employment
  - Further research is needed to understand whether current workers' policies, especially workers' compensation, achieve a proper balance between necessary protection and opportunities to hire.

The recommendations made here are not meant to be a one-size-fits-all solution to business environment problems, but instead are intended to guide policymakers toward practical policies that business owners have themselves identified to be important.

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## Appendix

Using the general survey as a “population” we conducted several analyses to understand if the respondents to the open-ended question varied by a statistically significant amount. We found several occasions that certain groups voiced more, which could potentially bias the types of responses. Results are below.

Table 6 represents a breakdown of attributes of respondents to several of the survey questions. The “Responses in Survey” column refers to all of the people who responded to the Thumbtack questionnaire, while the “Responses in Analysis” column refers to those responses to this question that were complete and included in this analysis. Where p-values are shown there is a statistically significant difference between the survey respondents and answers analyzed here.

**Table 6. Descriptive Attributes of Survey Takers**

	<b>Responses in Survey</b>	<b>%</b>	<b>Responses in Analysis</b>	<b>%</b>	<b>P-value</b>
<b>Political Preferences</b>					
Strong liberal/progressive	481	8.1	197	8.1	
Lean liberal/progressive	732	12.4	308	12.7	
Independent	1866	31.5	770	31.7	
Lean conservative	884	14.9	364	15.0	
Strong conservative	735	12.4	334	13.7	0.051
Other	1224	20.7	459	18.9	0.028
Total	4709		1927		
<b>Age</b>					
Under 25	347	5.8	133	5.5	
25-34	1535	25.7	630	25.8	
35-44	1537	37.6	636	26.1	
45-54	1420	23.8	566	23.2	
55-64	948	15.9	403	16.5	
65 or above	187	3.1	72	2.9	
Total	4092		1677		
<b>Education</b>					
Undergraduate degree	1977	33.0	831	34.0	
Community college	1126	18.8	441	18.0	
No high school	48	0.8	16	0.7	
High school	951	15.9	348	14.3	0.028
Master’s degree	802	13.4	336	13.8	
Doctoral degree	240	4.0	99	4.0	
Technical college	839	14.0	371	15.2	
Total	5983		2442		

<b>Gender</b>					
Male	3795	64.2	1596	66.1	0.048
Female	2114	35.8	816	33.8	
Total	5909		2412		
<b>Years of Operation</b>					
Less than 1 year	778	13.0	304	12.5	
1-2 years	1335	22.3	544	22.3	
3-4 years	1042	17.4	432	17.7	
5 or more years	2835	47.3	1156	47.5	
Total	5212		2132		
<b>Employees</b>					
1 to 5	5370	90.2	2017	89.7	
6 to 10	318	5.3	121	5.4	
11 to 30	181	3.0	74	3.3	
31-50	32	0.5	13	0.6	
51-100	23	0.4	7	0.3	
100+	32	0.5	17	0.7	
Total	5956		2249		
"Responses in Analysis" refers to answers from the open ended question in the Thumbtack Survey "Responses in Survey" refers to answers from the entire Survey					

For the most part, the sectors were represented similarly in our analysis as in the general survey, with the exception of overrepresentation of the technology and creative sectors and underrepresentation of the care sector (see table 7).

**Table 7. Sectors Represented in Survey and in Analysis**

<b>Sector</b>	<b>Responses in Survey</b>	<b>%</b>	<b>Responses in Analysis</b>	<b>%</b>	<b>P-Value</b>
Home Maintenance & Repair	2016	30.0	775	31.5	<b>0.0436</b>  <b>0.0042</b>
Events	1377	20.5	471	19.1	
Health, Beauty & Wellness	865	12.9	299	12.1	
Business	713	10.6	285	11.6	
Technology & Creative	601	8.9	249	10.1	
Instruction	577	8.6	201	8.2	
Care	325	4.8	88	3.6	
Vehicle	191	2.8	72	2.9	
Writing, Editing & Translation	64	1.0	23	0.9	
Total	6729		2463		
"Responses in Analysis" refers to answers from the open-ended question in the Thumbtack Survey "Responses in Survey" refers to answers from the entire Survey					

**Table 8. State Representation In Analysis**

States	Survey			Open-ended Question	
	Responses	% Responses	Responses	% Responses2	Difference In %
California	1066	15.84	396	16.08	0.24
Florida	612	9.09	205	8.32	-0.77
Texas	483	7.18	173	7.02	-0.15
New York	412	6.12	150	6.09	-0.03
Pennsylvania	250	3.71	91	3.69	-0.02
Illinois	247	3.67	91	3.69	0.02
North Carolina	241	3.58	86	3.49	-0.09
Washington	237	3.52	83	3.37	-0.15
Georgia	212	3.15	82	3.33	0.18
Arizona	207	3.08	80	3.25	0.17
Massachusetts	205	3.05	77	3.13	0.08
Colorado	192	2.85	63	2.56	-0.30
New Jersey	177	2.63	63	2.56	-0.07
Virginia	175	2.60	61	2.48	-0.12
Ohio	172	2.56	59	2.40	-0.16
Michigan	166	2.47	59	2.40	-0.07
Oregon	147	2.18	56	2.27	0.09
Maryland	142	2.11	54	2.19	0.08
Minnesota	140	2.08	51	2.07	-0.01
Missouri	139	2.07	46	1.87	-0.20
Tennessee	107	1.59	41	1.66	0.07
Wisconsin	103	1.53	40	1.62	0.09
Nevada	88	1.31	39	1.58	0.28
Indiana	73	1.08	33	1.34	0.26
South Carolina	72	1.07	29	1.18	0.11
Connecticut	68	1.01	28	1.14	0.13
Utah	51	0.76	21	0.85	0.09
New Hampshire	50	0.74	21	0.85	0.11
Kansas	47	0.70	20	0.81	0.11
Oklahoma	42	0.62	15	0.61	-0.02
Kentucky	41	0.61	15	0.61	0.00
Idaho	39	0.58	14	0.57	-0.01
New Mexico	35	0.52	13	0.53	0.01
Louisiana	29	0.43	12	0.49	0.06
Nebraska	28	0.42	12	0.49	0.07
Alabama	27	0.40	10	0.41	0.00
Iowa	25	0.37	9	0.37	-0.01
Hawaii	25	0.37	9	0.37	-0.01
D.C.	25	0.37	9	0.37	-0.01
Rhode Island	23	0.34	8	0.32	-0.02



**Table 8. State Representation In Analysis, cont'd**

States	Survey		Open-ended Question		Difference In %
	Responses	% Responses	Responses	% Responses2	
Arkansas	18	0.27	8	0.32	0.06
Delaware	16	0.24	7	0.28	0.05
Maine	16	0.24	5	0.20	-0.03
Vermont	14	0.21	5	0.20	-0.01
Mississippi	12	0.18	5	0.20	0.02
Montana	12	0.18	3	0.12	-0.06
Alaska	6	0.09	2	0.08	-0.01
West Virginia	5	0.07	1	0.04	-0.03
South Dakota	4	0.06	1	0.04	-0.02
North Dakota	3	0.04	1	0.04	0.00
Wyoming	2	0.03	1	0.04	0.01

“Responses in Analysis” refers to answers from the open ended question the in Thumbtack Survey  
“Responses in Survey” refers to answers from the entire Survey

**Table 9. Sector Representation**

sector	Survey		Open-ended Question		Difference
	responses	% responses	responses	% responses	
Home Maintenance & Repair	2016	29.96	775	31.47	1.51
Events	1377	20.46	471	19.12	-1.34
Health, Beauty & Wellness	865	12.85	299	12.14	-0.72
Business	713	10.60	285	11.57	0.98
Technology & Creative	601	8.93	249	10.11	1.18
Instruction	577	8.57	201	8.16	-0.41
Care	325	4.83	88	3.57	-1.26
Vehicle	191	2.84	72	2.92	0.08
Writing, Editing & Translation	64	0.95	23	0.93	-0.02
Total	6729		2463		

“Responses in Analysis” refers to answers from the open ended question the in Thumbtack Survey  
“Responses in Survey” refers to answers from the entire Survey