Enhancing Support for Lower Income Entrepreneurs

THROUGH MAJOR PUBLIC SYSTEMS

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SUMMARY OF POLICY RECOMMENDATIONS

We recognize that federal, state and local governments each play key roles in setting and implementing policies for tax, postsecondary education and workforce systems, and have structured our recommendations to be relevant to audiences at any level, with particular focus on federal-level opportunities.

Tax System Recommendations:

- Improve the Earned Income Tax Credit for all workers, including the self-employed.
- Provide tax relief for newly self-employed individuals and microbusiness owners.
- Create Retirement Bonds that are easily accessible by the self-employed through purchases made during tax filing.
- Simplify and expand the Saver's Credit to help LMI microbusiness owners save for retirement.
- Expand the Volunteer Income Tax Assistance Program's capacity to help LMI microbusiness owners navigate the complexity of the tax system.
- Coordinate grant-making across tax outreach and compliance programs.

Postsecondary Education System Recommendations:

- Support the student-powered microfinance movement: develop materials these organizations can use to build volunteer capacity and effectively reach business owners in their communities.
- Create a Community College to Career Fund that fully integrates entrepreneurship within the larger strategy of preparing students for productive, high-skill careers.
- Integrate financial education and entrepreneurship education.

Workforce System Recommendations:

- Enable more states to offer the Self-Employment Assistance (SEA) Program to unemployed workers.
- Amend the Workforce Investment Act (WIA) performance measures in order to facilitate delivery of entrepreneurship training and development services and help workforce clients succeed in self-employment.
- Support community partnerships that advance economic growth through integrated economic development, education, workforce and small business strategies.

ABOUT THIS REPORT

Creating and owning a business has long been heralded as a path to financial success and economic mobility. In fact, business equity is the second largest source of household wealth behind home equity. For low- and moderate- income (LMI) individuals, self-employment and business ownership can contribute meaningfully to family economic security. However, LMI entrepreneurs face unique hurdles that can prevent them from successfully growing wealth through their businesses, including low savings, constrained access to capital and limited access to business development services.

Unfortunately, most small business policies are ill-suited to address the issues faced by LMI entrepreneurs, most of whom run microbusinesses (firms with fewer than five employees). In comparison to the magnitude of support for "small business" that benefits firms with dozens of employees and millions of dollars in revenue, the policies and public systems that specifically serve lower-income microbusiness owners are tiny. Policy support for LMI microbusiness is also notably minor in comparison to policies that support other LMI individuals, such as students, workers and parents. Additional policy support is necessary to ensure that the wealth-building and mobility-enhancing aspects of business ownership are meaningful and achievable for entrepreneurs who start with few resources.

This report identifies opportunities for policymakers to ensure that current and aspiring LMI entrepreneurs can successfully start and run businesses that contribute meaningfully to their families' financial security. We focus specifically on opportunities to embed support for entrepreneurship into major public systems as a strategy to leverage their large scale to reach millions more current and potential LMI microbusiness owners

We examine three major public systems that already provide some entrepreneurship services—tax, postsecondary education and workforce—and analyze the challenges preventing them from serving more LMI microbusinesses, as well as opportunities for these systems to support more LMI entrepreneurs. The tax system already offers a mechanism to influence economic and social behavior, thus providing an opportunity to incent self-employment and entrepreneurship among LMI tax filers. The postsecondary education system has in recent decades seen exponential growth in academic and community-oriented programming to support entrepreneurship. The workforce system serves dislocated and hard-to-employ workers, some of whom are prospective entrepreneurs, and many of whom face similar challenges to financial security as LMI microbusiness owners.

We have developed recommendations for each system focused on measures that can help LMI entrepreneurs overcome specific challenges to their businesses' success. In the process of developing these recommendations, we conducted an extensive literature review and interviewed 16 practitioners, researchers and advocates working within each system, as well as those focused on entrepreneurship. They provided invaluable guidance and feedback throughout the process. Through these activities we have enhanced our understanding of the challenges that prevent more support for LMI entrepreneurs under current policies and identified promising practices that could be scaled up through policy. Our recommendations aim to help these entrepreneurs as they start businesses and develop skills for success in running mature or growing businesses. We also recommend opportunities to ensure that LMI entrepreneurs have access to tools and resources that contribute to financial security, from tax credits to retirement savings.

BACKGROUND: LMI ENTREPRENEURS AND CURRENT POLICY

The vast majority of small business owners run microbusinesses, firms with five or fewer employees. In fact, of the nation's 27.9 million small businesses,[1] 22.5 million are self-employed individuals who do not have employees,[2] and 3.6 million have between 1 and 4 employees.[3] More than half of these microbusinesses represent the owner's primary household income.[4] In 2012, approximately half of all microbusiness owners reported plans to hire additional employees in the next two years, indicating that a significant proportion of these businesses are planning to grow.[5] That said, not every microbusiness owner wants to create a high-growth firm; for many microbusiness owners, creating a job for themselves and supporting themselves and their families is the primary goal.

Nearly half (13 million) of all microbusiness owners earn less than $50,000 annually.[6] This indicates two important points: first, LMI entrepreneurs can and do run businesses that contribute to their families' financial security, and second, millions of microbusiness owners are financially vulnerable. A largely nonprofit-led field of organizations caters to these entrepreneurs by providing business development services such as training, technical assistance and loans (microloans are loans of less than $50,000). Still, this field only serves approximately 360,000 financially vulnerable microbusiness owners each year,[7] which, while significant, is only a small fraction of the population of financially vulnerable entrepreneurs. Many of these programs are well-developed and have proven successful, but they have difficulty scaling up.

Despite the demonstrated opportunity for entrepreneurship to contribute to financial security and create wealth for LMI individuals, current policy supports for entrepreneurship tend to be concentrated not on assisting business owners who are self-employed or have one or two employees, but rather on high-growth startups and established businesses that employ more than 20 workers. For example, the Small Business Administration's (SBA) flagship program, Section 7(a) guaranteed loans, was funded at more than $14 billion in Fiscal Year 2012, far outpacing the $63 million in funding provided to the agency's primary microbusiness-oriented programs.[8] While the average loan made by a microlending organization to a financially vulnerable business owner is about $14,000,[9] most commercial small business lenders will not make loans of less than $50,000, while the median Section 7(a) loan is nearly $340,000.[10] The Obama Administration's Startup America initiative, a White House partnership with private sector firms, universities and community organizations, encourages new entrepreneurs to take the leap and supports new startup businesses by expanding access to counseling and capital, but focuses specifically on high-growth firms.[11]

With policy support for small business concentrated primarily on larger and fast-growing firms, LMI entrepreneurs face inadequate access to the resources they need for success. One pathway forward in this challenging environment is to improve and expand access to the entrepreneurship services that are already available within large-scale public systems. The tax, postsecondary and workforce systems have each already integrated limited support for LMI entrepreneurs into their operations, but have untapped potential to reach more people and deliver more effective resources. Building on what these systems already offer would enable current and prospective entrepreneurs alike to be more resilient to difficult fiscal conditions, and provide new scale platforms for business development services that support microbusiness owners' financial security and capacity to build wealth.

THE TAX SYSTEM

The tax system is universal: it impacts all microbusiness owners, from those who have part-time side businesses in addition to traditional wage employment to those who work full-time at their businesses and employ others. The majority of microbusinesses—including nearly all of the self-employed—are structured as pass-through organizations, meaning that their owners report business profits as income and pay taxes through Schedule C of the individual tax code rather than the corporate tax code. Moreover, LMI tax assistance programs focus almost exclusively on the individual tax code. For these reasons, our tax analysis examines and recommends reforms to the individual tax code rather than the corporate code.

Some features of the tax code support LMI microbusiness owners, while others deter or fail to support the type of small-scale, lower-revenue activities in which these entrepreneurs engage. LMI entrepreneurs may receive filing assistance from a Volunteer Income Tax Assistance (VITA) program or get help from a Low Income Taxpayer Clinic (LITC). They may qualify for refundable tax credits. Or they may be left out of tax benefits that are targeted at higher-revenue businesses. So, for microbusiness owners, the tax system is a mixed bag; immensely impactful—both for good and for ill—and full of untapped potential.

While the main purpose of the tax code is to raise revenue, it also has the ability to directly support activities, such as purchasing a house, obtaining education or investing in a new small business. The tax code tools used to support these activities are tax expenditures, which come in four types: preferential tax rates, deductions, exclusions and credits. A preferential tax rate is applied, for instance, on capital gains, which are taxed at a lower rate than earned income. Deductions, exclusions and credits each allow taxpayers to reduce tax liability by spending on certain items, such as higher education or retirement savings. Exclusions and deductions reduce a filer's taxable income; credits reduce her tax liability.

It is worth noting that, from a policy standpoint, supporting specific activities through tax expenditures is not always preferable to supporting these activities through direct spending. Tax expenditures are in many ways less administratively flexible than direct spending programs. And, crucial to low-income microbusiness owners, most of the benefits from tax expenditures accrue to those at the top of the income spectrum.

Tax expenditures disproportionally benefit higher-income tax filers for two reasons. First, higher-income filers have higher effective tax rates, which means any deduction or exclusion is more valuable. For a filer with an effective tax rate of 30 percent, an exclusion of $1,000 of income is worth $300. If the filer's effective tax rate is instead only 15 percent, that $1,000 exclusion or deduction saves only $150. Second, higher-income tax filers tend to have high levels of income tax liability. A substantial majority of tax filers with annual income less than $50,000 have no federal income tax liability except for payroll taxes (FICA),[12] limiting any benefit from credits, deductions or exclusions. The exception to this rule is the *refundable* tax credit, a type of tax credit which can be claimed by filers without tax liability.

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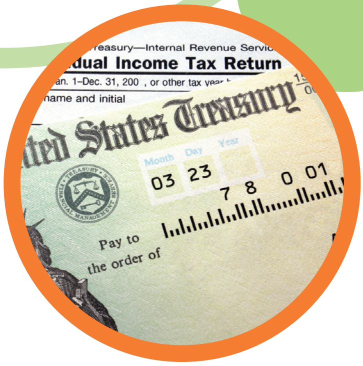

On both counts, one might argue that this disproportionate benefit for high-income households is the inevitable result of our progressive tax code. In a progressive tax code, tax expenditures will naturally decrease tax liability most for high-income households that pay higher taxes. If, however, one purpose of tax expenditures is to incent behavior rather than merely distribute benefits according to tax liability, these expenditures should distribute those incentives equitably across the income spectrum.

Most of the tax expenditures that are purportedly geared toward "small" businesses do very little to help the smallest businesses. The businesses that benefit from these tax expenditures are often categorically different (i.e., larger and more complex) than the ventures common among LMI microbusiness owners. For instance, Section 179 reduces the cost of capital for small businesses that use qualifying machinery and equipment. This is a worthy goal, but it does little to benefit entrepreneurs whose capital consists mainly of inventory or real estate—a group that includes most microbusiness owners.

But targeted reforms to enhance support for LMI microbusiness owners must be careful to balance twin goals of equity *and* simplicity. One of the greatest burdens

The EITC is often referred to as the largest anti-poverty program in the United States due to its reach and value to recipients. According to the Center on Budget and Policy Priorities (CBPP), 27 million families and individuals have received the credit. CBPP also finds that EITC and CTC combined lifted 9.4 million Americans—including nearly 5 million children—out of poverty in 2011.[15]

placed on microbusiness owners is the complexity of the tax system itself; 27% of microbusiness owners say that they need additional help with tax issues.[13] The self-employed not only must file and pay income taxes, but also are responsible for paying both the employer and employee shares of FICA. A wage worker will pay 7.65% of her salary in FICA taxes (on the first $113,700 in earnings), while her employer will pay an additional 7.65%. The worker does not have to take action to pay this tax as it is automatically deducted from her paychecks. In contrast, a self-employed person is responsible for paying the full 15.3 percent tax on her own. Additional complexity for self-employed taxpayers stems from the quarterly filing requirement—rather than dealing with taxes once a year, as most workers do, they must estimate their earnings in advance and pay taxes on them four times a year.

Tax compliance burdens on microbusiness owners are significant even when analyzed from several different viewpoints, including as a percentage of total receipts, as a percentage of total assets, and as a cost per employee. Time burden is mainly a result of recordkeeping; cost burden is mainly due to securing commercial tax preparers. Tax policy experts with whom we spoke cautioned that creating new tax preferences for LMI microbusinesses will have limited impact if they are difficult to claim or if few eligible entrepreneurs are aware of them. To ensure that microbusiness-targeted reforms have a net positive impact, they should reduce this burden of complexity, not add to it.

Our recommendations in this section focus on the federal tax code, as that is the most universal and has the greatest potential impact. However, many states and even some municipalities have tax codes with expenditures that are similar to those we discuss. Roughly half of the states, for instance, offer an Earned Income Tax Credit similar to the federal EITC. State and local governments can adapt these recommendations to apply them to their own tax policies.

Employment Tax Incentives for Individuals

Nonrefundable tax credits reduce the tax liability of tax filers, but low-income taxpayers with no income tax liability cannot receive the benefits of these credits. Refundable tax credits, in contrast, *can* be "refunded" by the Internal Revenue Service to tax filers without tax liability. Refundability is key for low-income microbusiness owners who often have little to no income tax liability.

No existing tax credits—refundable or otherwise—explicitly target low-income microbusiness owners. However, these entrepreneurs still receive a great deal of benefit from the two largest refundable credits, the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC). The EITC essentially provides a wage subsidy that increases as earnings increase up to a point, flattens out and then phases out as earnings exceed that point. For the purposes of the EITC, self-employment income counts as earned income, meaning that self-employed microbusiness owners with household income below about $50,000 may be eligible.[14] The EITC is often referred to as the largest anti-poverty program in the United States due to its reach and value to recipients. According to the Center on Budget and Policy Priorities (CBPP), 27 million families and individuals have received the credit. CBPP also finds that EITC and CTC combined lifted 9.4 million Americans—including nearly 5 million children—out of poverty in 2011.[15]

The CTC provides a maximum credit of $1,000 per child, but most of the expenditures through the CTC are non-refundable. For an individual filer, the size of the refundable credit is relative to her earnings—a parent can claim 15% of her income above $3,000 as a refundable credit. Thus, a mother of two with income of

$15,000 could claim $1,800 as a refundable credit ($15,000, minus $3,000, times .15). CTC is less refundable than EITC, meaning that lower-income tax filers, including LMI microbusiness owners, are often unable to claim the same level of benefits as higher-income filers. Still, a great many low-income microbusiness owners benefit from both the EITC and CTC. A CFED analysis found that, in 2007, there were nearly six million EITC tax returns with self-employment income—roughly a quarter of all EITC returns.[16] Roughly thirty percent of those who claimed the CTC in 2007 reported self-employment income.[17]

Not all tax filers who report self-employment income through Schedule C are entrepreneurs; some have been improperly classified as self-employed contractors to reduce costs for their employers, and others worked temporarily on a contract basis while looking for salaried jobs. Even still, the EITC and CTC translate into billions of dollars of annual support for low-income self-employed workers and microbusiness owners. While neither credit explicitly targets support for microbusiness, millions of LMI entrepreneurs benefit from these programs because their pass-through business revenue counts as income for the purpose of the credit. As a result, these two tax programs provide more dollars of support to low-income microbusiness owners than any other federal program, tax or otherwise, and perhaps more than all other forms of support combined.

While these benefits represent billions of dollars of annual support for microbusiness owners, the credits do not help all microbusiness owners equally. Both the EITC and CTC are geared toward workers with children. EITC benefits are much smaller for microbusiness owners who have no children (and of course CTC benefits can only be claimed by filers with children). For 2013, the maximum EITC benefit for a microbusiness owner with one child is $3,250, whereas the maximum benefit for the same filer with no children is less than 15% of that amount—$487.[18]

Recommendations:

- **Improve the EITC for all workers, including the self-employed.** Childless workers under the age of 25 are ineligible for the EITC, and childless workers over the age of 25 are eligible for only a very small benefit.

  A 26-year-old childless worker employed full-time at the federal minimum wage ($7.25) makes an annual income of $14,500, but would not qualify for EITC. CBPP has proposed several meaningful reforms to make the EITC work for all workers:[19]
  - Lowering the eligibility age for the credit to 21
  - Raise phase-in rate from 7.65% to 15.3% for childless workers in order to fully offset the cost of payroll taxes to these workers
  - Raise the maximum size of the credit for childless workers from $487 to $1,350

  CBPP estimates that these reforms would lift more than 300,000 workers out of poverty and reduce the level of poverty for 3.8 million more.

- **Provide tax relief for newly self-employed individuals and microbusiness owners.** Every year approximately 1.6 million taxpayers file a Schedule C tax form for the first time.[20] These and other new businesses are the source of nearly all net job creation.[21] This indicates that there may be significant macroeconomic benefits to providing additional support to help sustain new businesses in the difficult early years. Both CFED and the Freelancer's Union[22] have proposed versions of a New Entrepreneur Tax Credit to offset the start-up costs and unexpected liabilities that these entrepreneurs face in their first years of activity.

  Paying taxes for the first time as a business is one of the most challenging and consequential endeavors a new business will face. Yet the failure to do so can have a huge negative impact. Noncompliance can trap the business in the underground economy, limit household members' access to the country's basic safety net of Social Security, and prevent the business owner from accessing federal and state EITCs and CTCs. Of course, some noncompliance also results from small businesses intentionally misreporting income in order to limit tax liability or maximize tax benefits. Regardless of cause, government efforts to close the "tax

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A State-level Tax Approach to Supporting Microbusiness Owners

While states have long been generous with tax credits to recruit large businesses, they have generally ignored credits for smaller unincorporated businesses. Nebraska is one exception: the state has a dedicated tax credit to support microbusinesses. The Nebraska Advantage Microenterprise Tax Credit Act provides a $10,000 lifetime tax credit to microbusiness owners located in distressed geographic areas that make new investments in the microbusiness or increase employment.

Total funding for the credit is capped at $2 million annually from 2006 to 2015. According to the Nebraska Department of Revenue, in 2010, roughly $1.47 million in credits leveraged about $11 million in employment compensation and $8.67 million business investments.

Nebraska's law is promising; however, amendments are needed to increase its effectiveness. The number of businesses served is currently small, the race to claim the credit is real and service businesses with few fixed assets may have a hard time qualifying.

gap" have often focused on enforcement, including monitoring and prosecuting noncompliance. Little effort has focused on creating positive incentives for new businesses to file taxes for the first time.

A New Entrepreneur Tax Credit that targets newly self-employed individuals and microbusiness owners would create such a positive incentive. Such a credit will have the highest impact if it is refundable, though it could be structured to be partially refundable or nonrefundable. The credit should have the following features:

- **Available to sole proprietors,** given that most entrepreneurs start their businesses as unincorporated sole proprietors.
- **Limited to start-up and low-income businesses** to ensure that the credit is not simply claimed by the savviest businesses who already know the rules of the game. The credit could achieve this by limiting filers to claiming it on only one or two tax returns in the first year or two of the businesses' operations, establishing a total household income limit on eligibility and establishing a lifetime limit on the value of the credit per tax filer. This would ensure that the credit is not predominantly claimed by serial entrepreneurs who build and sell businesses many times.
- **Simple to administer** to ensure that it can effectively provide an incentive for new entrepreneurs to file and pay taxes. The credit should be designed to deliver small amounts to a broad set of businesses, so administration of the credit must be made as simple as possible. This could be achieved by relying solely on information from existing federal tax forms, including the Sole Proprietor tax form, Schedule C.
- **Tracked by the IRS** to ensure that only legitimate, eligible new businesses receive the credit and that older businesses do not claim it erroneously. Enforcement should include significant penalties to deter fraudulent claims.

Tax Expenditures for Health and Retirement

The Affordable Card Act (ACA) brings with it a significant tax credit for LMI individuals and microbusiness owners: the Advanced Premium Tax Credit (APTC) begins implementation in January 2014. LMI self-employed individuals and families (specifically, those earning between 133% and 400% of the federal poverty level) who purchase health insurance in the ACA's marketplaces will be eligible for the ACA's Advanced Premium Tax Credits (APTCs), which subsidize the cost of health insurance coverage. This subsidy is significant. By 2016, the cost of the APTC and related marketplace subsidies will be roughly $100 billion—exceeding the combined cost of the federal EITC and CTC.[23] By comparison, the existing deduction provided to self-employed health insurance premiums costs only about $6.1 billion in 2012. The APTC will be a boon for microbusiness owners with sufficient income. The Urban Institute estimates that the implementation of these tax-based health insurance subsidies (and the guarantee issue reform) will result in 1.5 million new entrepreneurs.[24] Given that the benefits of both the ACA's Medicaid expansion and its APTCs accrue mainly to those households at the lower levels of the income distribution, it is reasonable to assume that many of these new entrepreneurs will establish microbusinesses.

For retirement, the federal government spent about $116 billion in 2013 to support employer-provided retirement plans. By comparison, tax expenditures on self-employed retirement plans cost about $19 billion.[25] But even this number misrepresents the level of support provided to microbusiness owners because they are often unable to take advantage of these tax-advantage retirement savings accounts. No refundable credit for retirement is offered to help low-income entrepreneurs save for retirement, but the Saver's Credit explicitly targets low- to moderate-income workers to support retirement savings. Unfortunately, the current credit is nonrefundable, needlessly complex and amounted to only $1.2 billion in 2013—far below the level of support provided to employed and high-income retirement savers.

Recommendations:

- **Create Retirement Bonds that are easily accessible by the self-employed through purchases made during tax filing.** Retirement Bonds (R-Bonds) are a bipartisan proposal developed by then-Brookings Institution fellow Mark Iwry and then-Heritage Foundation fellow David John to expand access to retirement savings to millions of workers. Their proposal would create a new type of savings bonds issued by the U.S. Department of the Treasury. R-Bonds would pay a small amount of interest and have the same tax preferences as Individual Retirement Accounts (IRAs). Under the original proposal, full-time workers whose employers do not offer retirement plans could purchase R-Bonds through automatic payroll deductions, and when they reach a certain amount of R-Bond savings, workers could roll those accounts into traditional IRAs.

R-Bonds would also be a good low-cost strategy to ensure that lower-income self-employed individuals are able to save for retirement. Allowing R-Bonds to easily be purchased through the tax form as well as through payroll deductions would ensure they also benefit financially vulnerable microbusiness owners. Mimicking the automation feature of R-Bonds purchased through employers' payroll process, the self-employed should be able to automatically save a small percentage of their self-employment earnings in R-Bonds.

- **Simplify and expand the Saver's Credit. The existing Saver's Credit is nonrefundable, needlessly complex and is defined by three sharp income eligibility cliffs. These shortcomings mean that only a very small percentage of low-income tax filers qualify for the credit, and an even smaller number actually claim the credit.** By simplifying the Saver's Credit and making it refundable, Congress could provide additional support to all low- to moderate-income workers and entrepreneurs interested in putting savings away for retirement.

  Pairing this recommendation with the creation of R-Bonds offers an additional opportunity to simplify the Saver's Credit. Filers who did not save for retirement throughout the year could take advantage of the impulse to save when they determine the size of their refund and the potential value of the Saver's Credit by purchasing and receiving the match through R-Bonds. This could be particularly beneficial to the self-employed, who are less likely to contribute to a retirement account. Filers who do not have all the information needed to deposit the savings match into their retirement account at the time they file their taxes could also receive the credit in the form of R-Bonds.

Tax Compliance and Outreach

Two large-scale, federally funded tax compliance and outreach initiatives support low-income filers, benefiting many microbusiness owners in the process.

The Volunteer Income Tax Assistance (VITA) program is an IRS-supported initiative that offers free tax assistance to filers making less than $51,000 annually. VITA is particularly effective at connecting these low-income tax filers with refundable tax credits. In 2012, VITA served more than 1.6 million clients.[26] In 2011, the most recent year for which detailed information is available, nearly 700,000 of VITA's 1.5 million clients were EITC-eligible and claimed about $1 billion in EITC refunds. The same year, roughly 450,000 VITA clients claimed about $600 million in CTC refunds.[27]

VITA represents an excellent opportunity for expanding the reach of the EITC and CTC for microbusiness owners. While legislation could improve VITA directly with additional funding and programmatic expansions, IRS also has significant flexibility to empower VITA sites to process additional business returns and better target microbusiness owners.

Low-income Taxpayer Clinics (LITCs) are IRS-supported programs with a fourfold mission: provide pro bono representation to low-income taxpayers in dispute with the IRS, educate these taxpayers about their rights/responsibilities, conduct outreach and education to ESL taxpayers, and identify and advocate for issues that impact low-income taxpayers. LITC is a competitive grant program, and in 2012, 156 grantees received nearly $10 million.[28]

Every year, VITA and LITC programs serve more than a million low-income taxpayers, a small share of whom are self-employed microbusiness owners.

The VITA program has been enormously

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successful at providing low-income workers support at tax time. The limited Schedule C Initiative has proven to be a success as well at extending VITA services to low-income self-employed filers. In 2011, the pilot sites collectively helped 3,437 self-employed taxpayers file returns with Schedule C, plus an additional 2,304 taxpayers filing Schedule C-EZ. More than half of 2011 clients who had filed at the same site the year before increased their income.[29]

While additional funding for VITA or LITC would require an act of Congress, the Internal Revenue Service's (IRS) Office of Stakeholder Partnerships, Education and Communication (SPEC) Office could unilaterally improve the support that VITA sites provide to microbusiness owners. There is, however, significant pushback from SPEC on this point. Recent research from CFED's Self-Employment Tax Initiative shows that VITA sites are capable of expanding the services they provide to microbusinesses,[30] but VITA sites' capacity to serve a large volume of microbusinesses is limited by staff, volunteer and funding resources.

Recommendations:

- **Expand VITA's capacity to help LMI microbusiness owners navigate the complexity of the tax system.** In order to extend these services to LMI self-employed taxpayers at all VITA sites, Congress should provide additional support to the program and explicitly direct VITA sites to welcome low-income entrepreneurs for tax assistance. Representative Judy Chu's (D-CA) Entrepreneur Start-Up Growth Act,[31] introduced in 2011, would provide precisely this support.

  The IRS has the authority to make many changes without prior legislative action. In 2013, it announced that it would evaluate the outcomes of the IRS-CFED-National Community Tax Coalition joint Schedule C VITA initiative over the 2014 tax season, which authorized 16 VITA sites across the country to serve a greater range of self-employed taxpayers. If the evaluation shows strong results, IRS should consult with the pilot sites to develop best practices that other VITA sites could use to enhance their services for the self-employed.

- **Coordinate grant-making across tax outreach and compliance programs.** VITA is administered by SPEC, while the Taxpayer Advocate Service administers LITC. Although both programs serve low-income tax filers, there is little coordination of grant-making across the programs. Consequently, most VITA sites are not affiliated with LITCs, and not all LITCs offer VITA. Coordinating grant-making across these and other outreach programs would enable service providers to be more efficient, serve as one-stop shops for tax services for low-income taxpayers. It would also simplify the grant application and reporting processes, potentially resulting in reduced administrative spending.

THE POSTSECONDARY EDUCATION SYSTEM

The postsecondary education system supports entrepreneurs through two primary channels: delivering training and development services, and teaching entrepreneurship curricula to students in degree programs and as continuing education courses.[32] Most entrepreneurial training and development services offered through higher education institutions are delivered through Small Business Development Centers (SBDCs), business incubators, extension programs and student-led microbusiness organizations. Entrepreneurship curricula are sometimes offered through degree programs, but more commonly through individual elective courses or through non-degree seminars of varying duration.

Several federal agencies play different roles in shaping the postsecondary education system's engagement with LMI microbusinesses. The Department of Education's (ED) Office of Postsecondary Education is responsible for developing and regulating federal postsecondary education policy, largely relating to the federal student financial assistance programs. Third-party accreditation agencies are responsible for making sure that institutions of higher education and their curricula meet acceptable levels of quality; though the ED Accrediting Agency Evaluation Unit determines which accrediting agencies are reliable authorities, it does not have authority to require specific content to be used.[33] SBA has authority over SBDCs, most of which are hosted by educational institutions, although not all entrepreneurship training centers at postsecondary institutions are affiliated with SBDCs.[34]

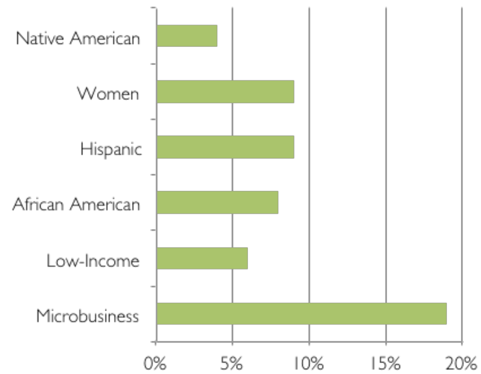
State-level education and economic development policymakers also play strong roles in determining the type and level of support that colleges and universities provide to LMI entrepreneurs. Although much of our analysis focuses on recommendations for federal policymakers, we recognize that state agencies often have more authority when it comes to things like allocating funding, developing statewide curricula in entrepreneurship and convening educational institutions to support knowledge-sharing and best-practices.

Campus-Based Small Business Training and Development Programs

A large proportion of colleges and universities offer some sort of training and development programs for prospective entrepreneurs and owners of small businesses, including those who are not students at the school. Some colleges and universities host Small Business Development Centers; others host independent incubators that offer trainings, workshops, operating space and technical assistance; more still host student-powered microbusiness and microloan programs; and land-grant institutions often run cooperative extension programs that apply research practically to fields like business, agriculture and engineering and connect university resources to the larger community.

Despite many postsecondary institutions' investments in small business training and development services, few currently target LMI microbusiness owners. For example, although 56 of the nation's 63 federally-funded SBDCs are hosted through institutions of higher education (including both universities and community colleges), the purpose of the SBDC program is to "serve all populations" of entrepreneurs.[35] Some SBDCs offer specialized programming for underrepresented entrepreneurs, including women, ethnic and racial minorities, lower-income individuals and veterans, but these are offered as a complement to services designed for everyone.

Demographic Targets of Incubator Programs



Business incubators are somewhat more likely than SBDCs to focus on underserved populations: about 19% of all incubators target microbusiness owners, 9% target Hispanics, 8% target African-Americans, 9% target women, 4% target Native Americans and 6% focus specifically on low-income entrepreneurs.[36] Still, nearly 70% of incubators surveyed indicated that they place "no special focus" on a particular population of entrepreneurs.

There does not appear to be widespread interest among SBDCs or business incubators in focusing more of their services on lower-income populations. America's Small Business Development Center Network, the trade association for SBDCs, seeks to "strengthen small/medium business management," and serves all types of businesses and entrepreneurs.[37] The National Business Incubation Association's (NBIA) mission is to "bring excellence to the process of assisting early-stage companies."[38] NBIA does have a cohort of members focused specifically on serving LMI entrepreneurs, but few of them are located on a college or university campus. Attempting to change the missions or primary services of SBDCs or college-based incubators may not be wise; providing resources to all business owners and preparing new firms to succeed are both legitimate and important policy goals, and the organizations have not demonstrated interest in shifting focus.

There is, however, a growing movement of student organizations and student-created university programs dedicated to serving LMI entrepreneurs residing in the schools' local communities. As Lend for

A Student-Run Microbusiness Program Addressing the Financial Capability Needs of Local Microbusinesses

Boston University's Urban Business Accelerator, which launched in 2012, offers a ten-week training program in which student teams provide one-on-one financial literacy training to small businesses in economically disadvantaged neighborhoods.

The goal of this program is to better position business owners to address key financial obstacles while also delivering an experiential learning opportunity for students. Participants receive a financial dashboard at the end of the program that allows them to benchmark against industry averages and better understand their own businesses' cash flow issues. Undergraduate students who use QuickBooks or the QuickBooks Point of Sale program to train business owners on both financial and computer literacy receive course credit upon completing their commitment.

This accelerator was launched by a student, is funded by the support of donors and corporate partners and receives university staff support through the Managing Director and Faculty Director.

Policymakers seeking to encourage colleges and universities to more effectively reach LMI microbusiness owners should collaborate with the student-powered microfinance movement and make resources available to these programs.

America, the association of student-led, campus-based microfinance institutions, puts it, their goal to "build strong businesses and communities by providing equitable financial services to low-income individuals."[39] Policymakers seeking to encourage colleges and universities to more effectively reach LMI microbusiness owners should collaborate with the student-powered microfinance movement and make resources available to these programs.

Most student-powered microfinance organizations focus on providing technical assistance and access to small amounts of capital, but the structures that different groups develop to achieve this mission vary widely. Some are wholly independent student clubs, others receive some resources or support through the college or university, and a small number have some professional staff hired and paid by the school. In addition to their eagerness to serve LMI entrepreneurs, student-powered microfinance organizations offer another key advantage to policymakers: as predominantly volunteer-based entities, they are relatively low-cost to operate. Despite reliance on donated time and labor, several student-powered microfinance organizations studied by FIELD at the Aspen Institute were able to serve more clients than the industry average for training organizations of a similar age.[40] These organizations not only are devoted to providing support to difficult-to-serve populations, but also operate in communities where other small business development programs are either not present or do not have capacity to fully meet LMI entrepreneurs' needs.[41]

Recommendation:

- **Support the student-powered microfinance movement: develop materials these organizations can use to build volunteer capacity and effectively reach business owners in their communities.** Partnering with and providing resources to the student-powered microfinance movement would enable the Small Business Administration and state economic development agencies to significantly expand the resources available to LMI entrepreneurs across the country without developing new grant or loan programs.

  Focusing on the federal level, SBA is also well-positioned to provide the training tools and resources that student-powered microfinance providers' need to become a sustainable and high-quality source of low-cost assistance for LMI entrepreneurs. Their reliance on volunteer labor makes them vulnerable to high turnover.[42] With few resources available to train new volunteers, quality and consistency may be at risk when combined with high turnover. These organizations are characterized by high levels of innovation compared to traditional microbusiness development services, and with greater support they could increase their capacity and sustainability.

  SBA has deep expertise in delivering volunteer-led small business development through the SCORE program, which can be cross-applied to the student-powered microfinance sector. This should include a toolkit of resources to ensure that new volunteers are well-trained and consistently deliver the organization's services and development of best practices for managing volunteer staff transitions. Some student organizations are beginning to develop such materials; SBA's expertise could enable them to implement proven strategies from the start. To support strong long-term loan fund management, SBA should broker opportunities for student-led microfinance organizations to partner with SBA microloan intermediaries. Finally, SBA can encourage its large network of campus-based grantees to partner with nearby student microfinance organizations in order to establish pathways to the next level of services that LMI entrepreneurs can follow as they grow and thrive. As the movement grows, connecting new student organizations on community college campuses with community college-based SBA grantees would be especially valuable as a strategy to engage LMI student entrepreneurs.

Economic development agencies in states with a significant student-powered microfinance presence can also implement these recommendations by leveraging their networks of community-based organizations, grantees and consultants to extend resources to and develop partnerships with the student microfinance movement.

The Role of Community Colleges

Community colleges have high potential as a scale platform for delivering services to LMI entrepreneurs: more than a quarter of the nation's approximately 1,200 community colleges offer education and training to prospective and current entrepreneurs. In fact, the National Association for Community College Entrepreneurship has more than 300 members[43] and provides a platform for knowledge-sharing and partnership that is unique in the postsecondary education system.

Compared to four-year universities, in many ways, community colleges are better positioned to deliver LMI-focused microbusiness initiatives. Community colleges have developed community service-oriented cultures that are supportive of a successful focus on assisting underserved, lower-income business owners. Community colleges are more affordable and focus on continuing education, which means they reach a wider swath of the LMI population than four-year institutions. This also means that entrepreneurship curricula delivered to degree-seeking community college students would be more likely to reach current and prospective LMI entrepreneurs than curricula offered to degree-seeking students at four-year institutions.

In fact, these characteristics have led policymakers in recent years to recognize the crucial role that community colleges play in delivering resources to lower-income populations in a variety of areas, from neighborhood revitalization[44] to public benefits enrollment[45] to workforce development.[46] In 2012, the Obama Administration proposed a Community College to Career Fund. The proposal would provide significant new funding—$8 billion—to community colleges, state and local economic development agencies, and workforce development organizations to develop and implement partnerships to train workers and entrepreneurs for success in high-growth industries, such as health care, transportation and advanced manufacturing. A key element of the Community College to Career Fund strategy is "training the next generation of entrepreneurs," for which $250 million would be allocated.[47]

On the whole, this proposal would create powerful incentives for community colleges to implement skills-based education and training that is recognized through a certificate or credential. These would be developed in partnership with local and regional employers and economic development experts, to ensure that students who earn credentials are effectively trained in skills and competencies that are in high demand. The Fund would encourage innovation and use of best practices through a competitive award process and the use of "pay for success" grant structures.

Recommendation:

- **Create a Community College to Career Fund that fully integrates entrepreneurship within the larger strategy of preparing students for productive, high-skill careers.** Legislative action is required to create the Fund because of the new spending requirements. In 2013, legislative versions of the Administration proposal were introduced in the House of Representatives (H.R. 2560) by Representative George Miller of California and in the Senate (S. 1269) by Senator Al Franken of Minnesota.

  When implementing a Community College to Career Fund, the Department of Education, Department of Labor and Small Business Administration should more fully integrates entrepreneurship within the larger strategy of the program. The aspects of the Fund described above can all easily apply to the entrepreneurship portion of the proposal. Most of the small adjustments we recommend can be achieved without changes to the existing legislation. For example, applicants for grant funding

Community colleges have high potential as a scale platform: more than a quarter of the nation's community colleges offer entrepreneurship education and training.

may be consortia of community colleges, workforce groups, local governments, and local or regional employers; allowing business development organizations to participate in these consortia would enable grantees offering both entrepreneurship and workforce development to make similar improvements to each area and effectively leverage funding. Second, Community College to Career Fund applicants would be required to describe the anticipated career opportunities available to a person who completes the training or certification program; this assessment could incorporate an estimation of the self-employment and business startup opportunities facilitated through the skills and competencies learned in the training program. This would be particularly valuable for rural applicants, where there may be fewer large employers and the self-employed tend to make up a larger-than-average share of the labor force.

State departments of employment and education can also pursue this recommendation by funding state-level partnerships for integrated career-ready education, workforce, entrepreneurship and economic development strategies.

Entrepreneurship Curricula

Entrepreneurship curricula are instruction programs developed with the intent of fostering creative and enterprising individuals who are prepared to start businesses after completing a program. Colleges and universities offer a wide variety of curricula types; some schools offer degrees or certificates in entrepreneurship, while others offer a major or only a handful of courses. Curricula may be restricted in availability to degree-seeking students or may be open to non-degree students who live in the community.

Entrepreneurship education is the primary vehicle for developing entrepreneurial knowledge, skills and competencies among students and entrepreneurs seeking training through colleges and universities. The curricula that postsecondary institutions use to teach entrepreneurship generally focus on helping students develop entrepreneurial attitudes, identify business opportunities that interest them and understand the steps involved in starting a successful business. Information and training on financial management often focuses on understanding cash flow, creating profit and loss statements and identifying small business borrowing options. Those seeking to increase the impact and relevance entrepreneurship education has for LMI entrepreneurs should help postsecondary institutions address the specific needs of this population. One way to do so is to integrate comprehensive financial education into entrepreneurship curricula.

In this vein, several community colleges have developed innovative ways to integrate financial education into business training in a way that is particularly relevant for microbusiness owners, and resources exist to guide others to follow suit. For example, Central New Mexico Community College participates in the Center for Working Families bundled services model through CNM Connect, a comprehensive set of student resources and support.[48] Through CNM Connect, the college offers students Individual Development Accounts for entrepreneurship, and all participants are required to "graduate from a Financial Management course."[49] Interestingly, the school's noncredit and for-credit financial education courses were developed by and are offered through the Business Department. At Guildford Technical Community College in North Carolina, all students in the Business Administration program must take a course in personal finance. SAGE, a global network of youth-focused entrepreneurship educators, has developed an "all-inclusive" program for both "business and economic literacy."[50]

While not designed specifically for college students, the Federal Deposit Insurance Corporation (FDIC) has adapted its Money Smart financial education curriculum to the needs of small business owners in a separate Money Smart for Small Business curriculum.[51] These resources can serve as starting points for the development of integrated approaches to postsecondary entrepreneurship education, particularly in areas like New York City, where entrepreneurship experts have identified integrated financial and entrepreneurship education as an untapped opportunity to support LMI entrepreneurs.[52]

Recommendation:

- **Integrate financial education and entrepreneurship education.** Integrating financial education and business training delivered through colleges has been identified as one key opportunity in New York, New Mexico, North Carolina and elsewhere. Other states should consider replicating these efforts.

  At the federal level, the Financial Literacy and Education Commission (FLEC) is well-positioned to coordinate among the variety of agencies with responsibilities for postsecondary education, microbusiness and financial education to produce a toolkit or resource guide that colleges and universities can use to better integrate financial education into their entrepreneurship education offerings. At the state level, agencies overseeing postsecondary institutions can also produce similar resources, and should implement strategies to disseminate and encourage their use.

THE WORKFORCE SYSTEM

The workforce system is focused on supporting low-income individuals through services that connect them to employment and career opportunities. Traditionally, this has meant connecting unemployed individuals to traditional wage employment. In the wake of the recession, the workforce system is struggling to assist a population experiencing chronic, long-term unemployment problem, slow job growth and a lack of opportunities for LMI workers to access quality jobs that offer career paths.

The federal workforce system, which is largely administered through the U.S. Department of Labor (DOL), has placed little emphasis on self-employment and entrepreneurship, despite recent trends that indicate that difficult-to-employ individuals are seeking to leverage job skills they have already gained to build their own jobs.

The Self-Employment Assistance Program

The DOL Self-Employment Assistance (SEA) Program, has demonstrated that delivering entrepreneurship support through the workforce system can meet unemployed workers' needs, contribute to local economies and provide services in a cost-effective manner.

Most unemployment insurance (UI) claimants must search for new full-time employment in order to qualify for benefits; however, SEA allows unemployed workers who are interested in entrepreneurship to receive benefits while they participate in entrepreneurship training and start their businesses. The SEA Program was created in 1992 and has been evaluated several times. A 2012 report from IMPAQ International evaluated the effectiveness of SEA programs in Minnesota, Maine and Pennsylvania that were started through the DOL Growing America through Entrepreneurship initiative (Project GATE). The researchers found that SEA effectively helps unemployed workers start successful businesses and that SEA participants were more likely to remain self-employed than other individuals who started businesses.[53]

SEA is limited in scale for two main reasons. First, states must go through a difficult opt-in process before offering the program through their UI system. Unlike most state-federal workforce partnerships, which allow governors to choose whether to participate, SEA requires state legislatures to authorize the program. Several states have passed SEA laws over the past two decades, but only a handful of states have ever offered it at the same time due to legislative sunset provisions and budget constraints. The barriers to participation in SEA have led some states, such as Minnesota and North Carolina, to develop alternative channels to provide entrepreneurship training to unemployed workers. Although the resources these alternative programs provide are similar to those offered through SEA, participants must continue seeking wage employment in order to qualify for UI benefits.

The second major barrier to broader SEA participation is that states are solely responsible for paying for entrepreneurship training available to participants. Because sufficient entrepreneurship training cannot easily be provided through existing workforce training programs, states that offer SEA often contract with microbusiness development organizations. This added cost deters many states from offering SEA as an option. Louisiana, for example, actually enacted legislation authorizing SEA but lack

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of training funds kept the program from getting off the ground. In 2012, Congress passed a UI reform bill that included one-time funding to states that started or expanded existing SEA programs. However, the need for state-level legislation and a complicated application process largely stymied this effort, and few states received funding.

Even successful business starts are recorded as workforce development failures under the WIA Common Measures.

Recommendation:

- **Enable more states to offer SEA to unemployed workers.** The SEA Program's success and limitations illustrate both the workforce system's opportunity to deliver services that effectively help workers build careers in today's challenging labor market, and the system's sometimes anti-entrepreneurial orientation. Congress and DOL can make SEA more accessible with a few low-cost reforms:
  - Authorize states to participate in the SEA Program via executive order from the governor.
  - Allow states that implement SEA to use federal workforce training dollars to offset the cost of providing entrepreneurship training to SEA participants.
  - Develop entrepreneurship training resources tailored to the specific needs of unemployed workers and make them available to states that implement SEA.

Workforce Investment Act (WIA) Performance Measures

The Workforce Investment Act's (WIA) Common Measures, often referred to as WIA performance measures, are an integral part of the DOL's performance accountability system and are used to evaluate whether workforce services, such as One-Stop Career Centers, are connecting individuals to employment opportunities. The Common Measures generally seek to answer the following questions:

- How many people found jobs?
- Did those people stay employed?
- What were their average earnings?[54]

DOL holds states accountable for grantees' performance in these three areas. If states fail to meet their expected performance levels, they may be penalized by reduced funding and if they meet or exceed their levels, they may be eligible to receive additional funds.[55] As a result, state and local workforce agencies generally structure their services to maximize their ability to satisfy the WIA common measures.

These measures fail to properly measure microbusiness creation or entrepreneurial activities in the workforce system. In practice, WIA-funded sites and organizations are allowed to direct clients interested in self-employment to business development resources, but each client who chooses that path cannot be counted as having found a job or staying employed. Essentially, even successful business starts are recorded as workforce development failures under the Common Measures. This challenge stands in the way of the majority of Workforce Investment Boards (WIBs), which implement WIA services and supervise service providers at the state and local level; 87% of WIB directors report that entrepreneurship should be a career option for the unemployed, but less than 5% say they provide all the services an entrepreneur needs to start a business successfully.[56]

Workforce and entrepreneurship experts whom we consulted in drafting this report, including both practitioners and researchers, strongly agreed that the WIA performance measures need to be adapted in order to encourage and properly measure the success of self-employment and entrepreneurship services offered through the workforce system. Measuring whether a business is successful is a challenge, however. Performance measurements are generally taken within a year of a client completing training, a time during which very few startup businesses are profitable. That does not mean that the businesses will not become profitable, though.

For many years, DOL has encouraged WIA service providers to support clients' entrepreneurial interests by providing guidance on how to do so. For example, a 2005 Training and Employment Guidance Letter (TEGL) issued by the Department states that "self-employment training programs and providers of these programs can and should be included" as resources available to workers who express interest in business ownership.[57] In 2010, the Department directed WIA service providers to help clients "understand the range of entrepreneurship resources available and [refer] them to counseling and training that best meet their needs."[58] The 2010 TEGL goes on to reiterate that service providers must still use existing performance measures, while recognizing that these may not accurately reflect positive outcomes of self-employment training.

In response to the performance measures challenge, the Consortium for Entrepreneurship Education (CEE) developed recommendations that would enable WIA grantees to easily measure how well workforce system-supported entrepreneurship training helps clients become self-employed. CEE's recommendations focus not on specific income or revenue targets, but rather on business characteristics that are associated with entrepreneurial success, such as proper business license or registration, a business plan that has been reviewed by experts and demonstration of proper financial recordkeeping.[59]

Modifying WIA's Common Measures to facilitate entrepreneurship services requires legislative action. Representative Lois Capps of California took steps to that end by introducing the Entrepreneurial Training Improvement Act in the 112th Congress (H.R. 5805). The Act would have required DOL to establish alternative guidelines for measuring the progress of state and local performance for WIA-provided entrepreneurial training services,[60] though similar legislation has yet to be introduced in the 113th Congress.

Recommendation:

- **Amend WIA's performance measures in order to facilitate delivery of entrepreneurship training and development services through the workforce system and implement measures that enable appropriate assessments of the degree to which such services help workforce clients succeed in self-employment.** In doing so, Congress would remove a major impediment to the workforce system's ability to provide self-employment services and training.

  In implementing such an amendment to WIA, DOL should develop alternative performance measures that both encourage interested clients to pursue self-employment and assess the ability of entrepreneurship training and development services offered by grantees to help clients successfully become self-employed. WIA grantees who offer entrepreneurship services should be required to:

  - Use intake tools that assess a client's suitability for referral to business development services.
  - Track the number of clients who express interest in self-employment or starting a business, as well as the number of these clients who ultimately enroll in related training.
  - Develop formal partnerships with microbusiness development organizations that have demonstrated capacity to provide education, training, counseling and coaching focused on helping new and LMI entrepreneurs succeed.

  With these protocols in place, grantees will be equipped to track self-employment-specific performance measures. In addition to those developed by CEE, we recommend tracking:

  - Did the client complete at least nine hours of training and counseling provided by one of the grantee's microbusiness development partners or another organization or government agency with demonstrated expertise in serving LMI entrepreneurs? [61]
  - Did the business apply for and receive a tax identification number?
  - Is the business operational after one year? After three years? [62] If not, is this due to business failure or a positive development such as sale of the business?
  - Does the client pay herself (or take an owner's draw) from the business's revenues?
  - Has the client reduced dependence on government benefits, such as TANF, Medicaid or unemployment insurance?[63]

Funding for Workforce and Economic Development Initiatives

The WIA service providers and workforce experts we spoke to frequently reported that it is difficult to cross-leverage different funding sources to create a comprehensive set of services that meets the needs of many different populations. Economic

An Economic and Workforce Partnership to Create a Certified Entrepreneurial Community

In Western North Carolina, the AdvantageWest economic development organization has implemented a Certified Entrepreneurial Community (CEC) initiative that allows communities in the region to self-assess and organize to develop an entrepreneur-friendly environment. AdvantageWest developed the CEC initiative because it saw an underserved entrepreneurial market as an opportunity to promote economic growth. To ensure total buy-in, communities that go through the process must secure a resolution form their governing boards endorsing the program. The CEC framework blends leadership and funding from town leaders, Workforce Investment Boards (WIBs), Chambers of Commerce and community colleges to create an integrated and holistic approach to economic development and entrepreneurship.

Initially, five WIBs across the AdvantageWest region work with AdvantageWest to put the CEC initiative into action. Today, the CEC model has been adopted by 10 communities. AdvantageWest's goal is to spread the model while allowing new CEC communities to adapt the initiative to meet the unique needs and assets of their communities.

Some communities have found that the most effective way to create good jobs for local residents and grow the local economy involve creating integrated, holistic economic development and workforce development strategies.

development and entrepreneurship service providers reported a preference to avoid partnering with WIA grantees because of the difficulties of associated with WIA's complex and cumbersome funding stipulations.

Some communities have found that the most effective way to create good jobs for local residents and grow the local economy involve creating integrated, holistic economic development and workforce development strategies. This can include offering programs and training opportunities that focus on industries of local importance while opening enrollment to multiple types of clients, from prospective LMI entrepreneurs to long-term unemployed workers to disconnected youth. WIA grantees' allowable activities are highly proscribed, making it difficult to blend WIA funds with other sources to support programs that serve both WIA clients and other individuals.

Communities and organizations that have attempted to bring more entrepreneurship to their members have hit roadblocks when trying to access WIA funding. For example, in Olympia, WA, Enterprise for Equity has been providing services to disadvantaged individuals in order to prepare them to become entrepreneurs since 1999. Many participants have chosen to start businesses because jobs were so hard to come by in the local labor market. Although Enterprise for Equity has successfully helped more than 100 individuals start businesses, they have been unable to get funding assistance from the local Workforce Investment Board (WIB).[64] Instead of discouraging the blending of funds and the integration of services, policy should encourage the integration of workforce and economic development services.

DOL has taken initial steps toward this issue through the Regional Innovation Fund. This fund provided $250,000 grants to consortia of regional economic development and workforce agencies that sought to implement holistic strategies to accelerate regional economic growth. For example, the Long Island Regional Innovation Grant (LIRIG) Project—coordinated by a group of WIBs, economic development agencies and other stakeholders through the Connect Long Island Partnership—received funds from 2008–2010. The grant supported the partners' efforts to create an integrated regional economic and workforce development strategy that could create a "foundation for innovation, entrepreneurship and investment" in addition to meeting the needs of businesses and workers.[65] LIRIG pursued an entrepreneurship strategy in concert with a workforce strategy because an analysis of the skills and industry experience of dislocated workers provided a high-quality talent pool of potential entrepreneurs, while the highest growth sectors in the regional labor market exhibited high levels of small business.[66]

This initiative highlighted an important policy issue that workforce systems at the federal and state levels should explore: using and sharing unemployment system data is an underused strategy for delivering tailored, effective entrepreneurship support services through the workforce system. When WIBs are able to access and use data such as occupation-specific job losses, they can better understand, reach and serve the population of potential entrepreneurs in their communities. Service providers could use this data to proactively deliver relevant information about entrepreneurial opportunities matched to dislocated workers' experience and skills, potentially reducing the time that workers are without income.[67]

Recommendations:

- **Support community partnerships that advance economic growth through integrated economic development, education, workforce and small business strategies.** If the workforce system is to become a more frequent and more effective source of support for entrepreneurial training and development resources, policymakers must break down the silos of community development, economic development, workforce development and small business development. DOL should lead policy reforms in this area, as WIA funding drives the scope of workforce investment strategies at the state and local levels. DOL should take the following actions to support integrated strategies:

- Study outcomes of Regional Innovation Grant projects to identify best practices (such as more strategic use of employee dislocation data) to effectively integrate economic development, workforce development and small business development. Share these widely with WIA service providers and encourage them to apply the practices.
- Provide states and local areas with increased flexibility to blend funds in order to provide services through multiple or overlapping training program. Develop specific strategies for service providers that blend funds to accurately and appropriately use WIA performance measures.
- Provide funding to support a central coordinator, demonstration project and nationwide implementation of cooperation strategies among these different funding streams.[68]

State agencies can also take action on this recommendation by leveraging more flexible economic and community development funding to support these partnerships and help fill gaps in funding provided by WIA and other federal sources.

CONCLUSION

The U.S. economy is still dealing with the fallout of the Great Recession; unemployment remains stubbornly high and many new job opportunities are low-wage. Families and individuals are still struggling to provide for themselves with ever fewer resources. For LMI individuals, business ownership can be a chance to build their own jobs when there are few labor market options. Microbusiness ownership can contribute to family economic security and be a source of wealth creation that helps families achieve upward economic mobility. However, LMI entrepreneurs often face unique hurdles in starting a business, with low savings, constrained access to capital and limited access to business development services.

Current policies, whether they are focused on supporting small businesses or low-income households, miss opportunities to address the specific needs of LMI microbusiness owners and potential entrepreneurs. Programs that do target services to LMI entrepreneurs are comparatively small and facing budget cuts at the federal and state levels. Thus, while labor market trends make it increasingly important to ensure that public policy is supportive of financially vulnerable entrepreneurs, it is becoming more difficult to do so.

This challenge can be addressed by more effectively leveraging major public systems that already deliver support to LMI microbusiness owners and new entrepreneurs. We have identified numerous opportunities within the tax, postsecondary education, and workforce systems to enhance the quantity and quality of support available to LMI entrepreneurs. Our recommendations would help these entrepreneurs through the startup phase, enable them to develop the skills needed for success in any period of the business lifecycle, and ensure that they have access to tools and resources that contribute to financial security, from income-enhancing tax credits to retirement savings. These recommendations build upon the services already delivered through these systems and address barriers identified by service providers, researchers and advocates.

The recommendations in this report will assist advocates and policymakers in new efforts to support entrepreneurship as a source of family financial security and economic growth. Implementing these practical, actionable reforms will result in substantial improvements to policy efforts to spur small business success and support low- and moderate-income families alike.

Our recommendations would help these entrepreneurs through the startup phase, enable them to develop the skills needed for success in any period of the business lifecycle, and ensure that they have access to tools and resources that contribute to financial security, from income-enhancing tax credits to retirement savings.

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