Size Standards

The Small Business Act of 1953 defines a small business as a concern, including its affiliates that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualifies as a small business under the Small Business Administration's (SBA's) size standards. The size standards are numerical definitions, established by SBA, for every private sector industry in the U.S. economy. These industries are identified by the North American Industry Classification System (NAICS) codes. The NAICS codes are six-digit numbers, such as 238910 for Site Preparation Contractors, 333513 for Machine Tool Manufacturing and 541430 for Graphic Design Services. Access http://www.census.gov/eos/www/naics for the complete list.

All federal agencies use SBA's size standards to determine eligibility for federal contracts set-aside for small business. These standards are based on either average number of employees over the past 12 months or average annual receipts over the past three years and represents the largest size that a business may be to be classified as small. The most commonly used size standards are: Manufacturing - 500 employees, Wholesale Trade – 100 employees, Agriculture - $750,000, Retail Trade - $7M, General and Heavy Construction (except dredging) – $33.5M, Dredging - $20M, Special Trade Contractors - $14M, Travel Agencies - $3.5M, Business and Personal Services - $7M, Architectural, Engineering, Surveying and Mapping Services - $4.5M, Dry Cleaning and Carpet Cleaning Services - $4.5M. Access http://www.sba.gov/idc/groups/public/documents/sba_homepage/serv_sstd_tablepdf.pdf for SBA's Table of Small Business Size Standards.

For government procurement the contracting officer will designate, as part of the solicitation, the applicable size standard for the NAICS industry that best describes the goods or services being purchased. When more than one NAICS is listed on the solicitation, consideration is given to the goods and services being purchased and the value and importance of each. The size of the concern at the time of self-certification holds for that contract. A concern may grow above the size standard before or after award without loss of eligibility to perform on that contract. To verify your business size contracting officers use On-line Representations and Certifications (ORCA).

Definitions

Affiliates – Affiliation with another business concern is based on the power to control, whether exercised or not. Such factors as common ownership, common management and identity of interest (often found in members of the same family), among others, are indicators of affiliation. Power to control exists when a party or parties have 50 percent or more ownership. It may also exist with considerably less than 50 percent ownership by contractual arrangement or when one or more parties own a large share compared to other parties. Affiliated business concerns need not be in the same line of business.

Employees – The number of employees of a concern is its average number of persons employed for each pay period over the concern’s latest 12 months. Any person on the payroll must be included as one employee regardless of hour’s worked or temporary status. The number of employees of a concern in business under 12 months is based on the average for each pay period it has been in business.

Annual Receipts – Receipts means “total income” (or in the case of a sole proprietorship, “gross income”)

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plus "cost of goods sold" as these terms are defined and reported on Internal Revenue Service tax return forms. The term does not include net capital gains or losses; taxes collected for and remitted to a taxing authority if included in gross or total income, such as sales or other taxes collected from customers and excluding taxes levied on the concern or its employees; proceeds from transactions between a concern and its domestic or foreign affiliates; and amounts collected for another by a travel agent, real estate agent, advertising agent, conference management service provider, freight forwarder or customs broker. Receipts are averaged over a concern's latest three completed fiscal years to determine its average annual receipts. If a concern has not been in business for three years, the average weekly revenue for the number of weeks the concern has been in business is multiplied by 52 to determine its average annual receipts.

**Frequently Asked Questions**

**Does SBA issue certificates for firms to qualify as small businesses?**

No. To participate in federal procurement, a business must first register in the Central Contractor Registration (CCR) database, by accessing [http://www.ccr.gov](http://www.ccr.gov). Based on information that a company provides in CCR (such as the amount of receipts, the number of employees, etc.) it will be identified as "small" or "other than small" (i.e., large) for each of the North American Industry Classification System (NAICS) codes being selected. The firm can then self-certify its small business status in Online Representations and Certifications (ORCA) at [http://orca.bpn.gov](http://orca.bpn.gov). The firm must be small and have certified that it is small when it submits its best and final offer with price, based on the size standard specified in the solicitation. Federal agencies use ORCA to verify a company's small business size status for each contract for which it competes.

**My firm desires to joint venture with another firm to bid on a government contract. Each of us is below the size standard individually, but not when we are combined. Are we eligible to bid as a small business?**

Only for certain procurements could this joint venture qualify as a small business. In a joint venture both firms share, in some proportion, the responsibility and the profits or loss on a contract. They are considered affiliated for the purpose of that contract. Normally, the revenues or the employees of both firms are added together to determine the size of a joint venture. However, on certain large federal procurements, a joint venture comprised of only small businesses would qualify as a small business joint venture. This is limited to (1) procurements that exceed $10 million in value that are classified with an NAICS industry having an employee-based size standard, or (2) procurements that exceed one-half of the size standard for procurements classified with an NAICS industry having a revenue-based size standard. Also, certain 8(a) firms may joint venture with other firms without being considered affiliates (see 13 CFR §§ 121.103 and 124.513 for more information).

**My business operates under a franchise. Am I affiliated with the franchiser or with similar franchisees?**

A franchisee operating under its own ownership, own management, and for its own profit (or loss) would generally not be affiliated with the franchiser or other franchisees through the franchise arrangements, except under unusual circumstance. For further information, see SBA's Franchise Registry at [http://www.franchiseregistry.com](http://www.franchiseregistry.com) to see if your franchise is already eligible.

**How can I restructure my firm or firms so I still maintain ownership, but become eligible as a small business? I am not now a small business?**

Restructuring your firm for the primary purpose of becoming small under a size standard would not change your size status.

**How do federal agencies use the SBA’s size standards?**

With few exceptions, all Federal Agencies use the size standards established by SBA to procure goods and services from eligible small businesses. Most agencies set aside a share of their procurement activity exclusively for small businesses. In addition, many other political entities, such as state and local governments, adopt SBA's size standards. Most federal agencies reserve all or some of their programs for small businesses. For instance, the SBA has a number of loan programs for qualified small businesses.