

Changes in Self-Employment: 2010 to 2011

American Community Survey Briefs

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INTRODUCTION

From December 2007 to June 2009, the United States experienced an economic recession followed by a recovery year in 2010.¹ In this brief, we examine changes in self-employment from 2010 to 2011 for the United States as a whole, the 50 states, the District of Columbia, and Puerto Rico. Self-employment includes individuals working in incorporated and nonincorporated businesses, this brief considers changes in both types of self-employment. In addition, we examine changes in total employment from 2010 to 2011 for these same geographies. Finally, we compare the demographic, social, and economic characteristics of incorporated and nonincorporated self-employed workers in 2011.²

What Is Self-Employment?

For tax purposes, the IRS defines workers as self-employed if they: (1) carry on trade or business as a sole proprietor or independent contractor, (2) are a member of a partnership that carries on trade or business, or (3) are otherwise in a business for oneself.³ Self-employed workers pay income taxes, the same as wageworkers, but they also pay a self-employment tax equal to the social security and Medicare taxes paid

¹ "U.S. Business Cycle Expansions and Contractions," (Cambridge, MA, National Bureau of Economic Research, Sept. 20, 2010), available on the Internet at <www.nber.org/cycles/cyclesmain.html>, accessed on August 4, 2011.

² Firm level data on nonemployer businesses in 2010 are provided through the U.S. Census Bureau's "Nonemployer Statistics," available on the Internet at <www.census.gov/econ/nonemployer/index.html>. Firm level data on employer and nonemployer businesses in 2007 are provided through the "Survey of Business Owners," available on the Internet at <www.census.gov/econ/sbo>.

³ "Self-Employed Individuals Tax Center," available on the Internet at <<http://irs.gov/businesses/small/self-employed/index.html>>, accessed on June 30, 2012.

Self-Employment:

In the 2011 American Community Survey, the class-of-worker question (included below) categorizes workers based on their relationship to the business for which they work. The question identifies self-employed workers and distinguishes between self-employed workers in incorporated and non-incorporated businesses. In cases where a respondent worked at more than one job or business in the last week, the class-of-worker question refers to the job or business for which they worked the most hours. The class-of-worker question was the same in the 2010 and 2011 American Community Surveys.

Was this person—

Mark (X) ONE box.

An employee of a PRIVATE FOR-PROFIT company or business, or of an individual, for wages, salary, or commissions?

An employee of a PRIVATE NOT-FOR-PROFIT, tax-exempt, or charitable organization?

A local GOVERNMENT employee (city, county, etc.)?

A state GOVERNMENT employee?

A federal GOVERNMENT employee?

SELF-EMPLOYED in own NOT INCORPORATED business, professional practice, or farm?

SELF-EMPLOYED in own INCORPORATED business, professional practice, or farm?

Working WITHOUT PAY in family business or farm?

for waged workers. Self-employment businesses can be either unincorporated, such as sole proprietorships, or incorporated, such as C and S corporations. Incorporated businesses exist as entities legally separate from their shareholders or members. Corporations hold many of the same legal rights as individuals, such as the right to bring lawsuits, buy and sell property, enter into contracts, and the obligation to pay taxes.⁴ One of the primary advantages of incorporating a self-employment business is that it limits the shareholders' liability for the business' debts and obligations. In addition, incorporated businesses have the advantages of unlimited life, transferability of ownership shares, the ability to raise investment capital through selling securities, and, in some cases, tax benefits.⁵

Changes in Nonincorporated Self-Employment for the Nation and States

At the national level, nonincorporated self-employment composed 6.2 percent of total employment in 2011 (Table 1). Among the 50 states, the District of Columbia, and Puerto Rico, the share of nonincorporated self-employment of total employment in the same year ranged from a high of 9.9 percent in Puerto Rico to a low of 3.9 percent in the District of Columbia.

From 2010 to 2011, the share of nonincorporated self-employment of total employment decreased at the national level and for five states and the District of Columbia. These states varied across most regions of the nation, including Western, Northeastern, and

Southern states. Only Alaska and Puerto Rico experienced increases in the share of nonincorporated self-employment, of 0.9 and 0.7 percentage points, respectively. No other states experienced statistically significant changes in the share of nonincorporated self-employment. The decrease in the share of nonincorporated self-employment was 0.1 percentage points at the national level. At the state level, the decrease in the share of nonincorporated self-employment varied. The decrease was 0.2 percentage points in New York and 0.8 percentage points in the District of Columbia.⁶

Changes in Incorporated Self-Employment for the Nation and States

Incorporated self-employment makes up a much smaller share of total employment than does nonincorporated self-employment. At the national level, incorporated self-employment composed 3.4 percent of total employment in 2011. Among the 50 states, the District of Columbia, and Puerto Rico, the share of incorporated self-employment of total employment in the same year ranged from a high of 5.9 percent in Montana to a low of 2.3 percent in Tennessee.

Despite its making up a smaller share of the total workforce than nonincorporated self-employment, more states experienced significant changes in incorporated self-employment from 2010 to 2011. The share of incorporated self-employment of total employment decreased at the national level and for 13 states. These states varied across most regions of the nation, including Western, Midwestern, and Southern states. Only one state, Pennsylvania,

experienced an increase of 0.2 percentage points in the share of incorporated self-employment. No other states experienced significant changes in the share of incorporated self-employment. The decrease in the share of incorporated self-employment was 0.1 percentage points at the national level. At the state level, the decrease in the share of incorporated self-employment varied. The decrease was 0.2 percentage points in California and 1.0 percentage point in Wyoming.⁷

While the nation and a number of states experienced decreases in the share of incorporated self-employment in the last year, the general labor market experienced an increase in the total number of workers. At the national level, the total number of workers increased by more than 1 million from 2010 to 2011.⁸ In addition, 23 states and the District of Columbia experienced increases in the total number of workers. These states varied across all regions of the nation: Northeast, Midwest, South, and West. The increase in the total number of workers ranged from a high of slightly more than 180,000 workers in California to a low of nearly 8,000 workers in North Dakota. Only Puerto Rico experienced a significant decrease in the total number of workers from 2010 to 2011.

⁷ The difference in the decrease of 0.2 percentage points in California and 1.0 percentage point in Wyoming is not statistically significant.

⁸ The increase in the total number of employed persons from 2010 to 2011 based on annual averaged data from the Current Population Survey was smaller, about 805,000 persons with a standard error of 253,565 persons. "Table 1, Annual Average, Household Data, 1941 to date," *Current Population Survey*, Washington, DC, Bureau of Labor Statistics, available on the Internet at <<http://bls.gov/cps/tables.htm>>, accessed on August 2, 2012. The difference between the American Community Survey and Current Population Survey estimates of total employed persons is statistically significant.

⁴ Encyclopedia entry: "Incorporation," available on the Internet at <<http://entrepreneur.com/encyclopedia/term/82210.html>>, accessed on June 30, 2012.

⁵ "Incorporating Your Business," available on the Internet at <<http://entrepreneur.com/article/77730>>, accessed on June 30, 2012.

⁶ The difference in the decrease of 0.2 percentage points in New York and 0.8 percentage points in the District of Columbia is not statistically significant.

Table 1.

Incorporated and Nonincorporated Self-Employment: 2010 and 2011(For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Area	Incorporated self-employed				Nonincorporated self-employed				Total employed ¹	
	Change in percent of total employed 2010–2011	Margin of error ^{2,3} (±)	Percent of total employed 2011	Margin of error ^{2,3} (±)	Change in percent of total employed 2010–2011	Margin of error ^{2,3} (±)	Percent of total employed 2011	Margin of error ^{2,3} (±)	Change in estimate 2010–2011	Margin of error ^{2,3} (±)
United States	*–0.1	–	3.4	–	*–0.1	0.1	6.2	–	*1,365,641	198,417
Alabama	–0.1	0.3	2.9	0.2	–0.3	0.4	5.3	0.3	2,270	24,701
Alaska	–0.5	0.8	2.6	0.4	*0.9	0.9	6.9	0.7	6,660	7,830
Arizona	–	0.3	3.7	0.2	0.1	0.4	6.2	0.3	*32,434	26,813
Arkansas	–0.1	0.4	3.1	0.3	–0.1	0.5	6.3	0.4	–9573	16,670
California	*–0.2	0.1	3.2	0.1	0.1	0.2	8.5	0.1	*183,522	59,708
Colorado	*–0.5	0.3	4.7	0.2	*–0.6	0.4	6.6	0.3	*45,745	19,778
Connecticut	–0.1	0.3	3.4	0.2	0.1	0.5	6.8	0.3	6,048	14,275
Delaware	0.5	0.7	4.0	0.5	–	0.7	4.0	0.5	*9,245	8,407
District of Columbia	0.3	0.7	2.4	0.4	*–0.8	0.7	3.9	0.6	*11,480	7,270
Florida	*–0.4	0.2	5.5	0.2	–	0.3	6.0	0.2	*126,953	43,613
Georgia	*–0.3	0.3	4.0	0.2	–0.2	0.3	5.6	0.3	28,323	35,139
Hawaii	–	0.6	3.7	0.4	–0.8	0.7	6.8	0.5	–8668	11,839
Idaho	–0.2	0.7	4.2	0.6	0.5	0.7	8.0	0.6	3,009	13,313
Illinois	*–0.3	0.2	3.4	0.1	–0.1	0.2	4.9	0.2	15,354	32,860
Indiana	*–0.4	0.2	2.7	0.2	–	0.3	4.9	0.3	*35,739	21,792
Iowa	–	0.3	3.3	0.2	–0.4	0.4	6.7	0.3	–1282	12,350
Kansas	–0.1	0.4	3.1	0.2	–0.2	0.5	6.7	0.3	*16,008	12,885
Kentucky	*–0.4	0.3	2.7	0.2	–0.3	0.4	5.5	0.3	*22,430	20,545
Louisiana	0.3	0.4	3.6	0.3	–0.1	0.4	5.5	0.3	6,416	23,096
Maine	–	0.5	3.9	0.4	0.1	0.8	9.3	0.5	1,439	9,248
Maryland	–0.2	0.3	3.3	0.2	0.3	0.3	5.0	0.2	8,551	23,021
Massachusetts	–0.1	0.3	2.9	0.2	0.3	0.4	6.5	0.2	*59,617	22,772
Michigan	–	0.2	3.5	0.1	–	0.2	5.3	0.1	*54,368	26,480
Minnesota	–0.1	0.2	3.9	0.2	–	0.3	6.1	0.2	*35,236	18,925
Mississippi	0.1	0.4	3.0	0.3	0.0	0.4	5.8	0.3	6,092	17,378
Missouri	*–0.3	0.3	2.9	0.2	–	0.3	6.1	0.2	8,181	21,577
Montana	0.7	0.8	5.9	0.6	–0.5	0.9	9.2	0.6	*12,314	9,551
Nebraska	0.3	0.3	3.9	0.3	–0.2	0.5	7.4	0.4	8,539	10,753
Nevada	–0.5	0.5	3.1	0.4	–0.3	0.5	4.6	0.4	7,988	16,158
New Hampshire	0.1	0.4	3.3	0.3	*–0.7	0.6	7.4	0.4	231	10,280
New Jersey	–0.1	0.2	3.8	0.2	–	0.3	4.7	0.2	8,657	23,482
New Mexico	*–0.7	0.5	2.6	0.3	–	0.7	6.9	0.5	1,497	13,498
New York	–0.1	0.2	3.6	0.1	*–0.2	0.2	6.0	0.1	*45,375	39,185
North Carolina	–0.1	0.3	3.5	0.2	–	0.3	5.9	0.2	*67,232	37,351
North Dakota	–0.3	0.6	3.2	0.4	–0.1	0.9	8.6	0.6	*7,935	5,843
Ohio	–	0.1	2.7	0.1	–	0.2	5.2	0.2	*36,563	30,831
Oklahoma	–0.2	0.3	3.4	0.2	–0.4	0.4	6.8	0.3	15,155	15,444
Oregon	*–0.5	0.3	3.9	0.2	–	0.4	8.1	0.4	8,863	22,388
Pennsylvania	*0.2	0.2	2.9	0.1	*–0.3	0.2	5.3	0.1	10,530	32,304
Rhode Island	0.4	0.7	3.5	0.4	–0.2	0.7	5.0	0.5	*20,271	10,352
South Carolina	0.2	0.3	3.6	0.3	0.4	0.5	5.6	0.4	13,890	26,299
South Dakota	–0.4	0.6	3.8	0.5	–0.1	1.0	8.6	0.6	6,429	6,541
Tennessee	*–0.3	0.2	2.3	0.2	0.2	0.4	7.3	0.3	*49,633	25,324
Texas	0.1	0.1	2.9	0.1	*–0.3	0.2	6.8	0.2	*183,218	63,818
Utah	–0.1	0.4	4.1	0.3	–0.3	0.5	4.6	0.3	*31,742	16,243
Vermont	–0.1	0.7	4.4	0.5	0.1	0.9	9.6	0.6	4,870	5,923
Virginia	*–0.3	0.2	3.1	0.1	–	0.3	4.9	0.2	*45,932	29,053
Washington	–0.2	0.3	3.8	0.2	–0.1	0.4	6.1	0.2	*47,729	25,881
West Virginia	0.2	0.5	2.5	0.4	–0.1	0.5	4.6	0.4	1,714	11,299
Wisconsin	–0.1	0.2	3.1	0.2	–	0.3	5.6	0.2	14,375	18,778
Wyoming	*–1.0	1.0	3.4	0.6	–0.3	1.1	6.4	0.7	*9,362	6,559
Puerto Rico	–0.3	0.4	2.5	0.3	*0.7	0.7	9.9	0.5	*–20,384	14,840

* Statistically different from zero at the 90 percent confidence level.

– Represents or rounds to zero.

¹ Official estimates of total employed are published by the Bureau of Labor Statistics.² Data are based on a sample and are subject to sampling variability. A margin of error is a measure of an estimate's variability. The larger the margin of error is in relation to the size of the estimate, the less reliable the estimate. When added to and subtracted from the estimate, the margin of error forms the 90 percent confidence interval.³ For margins of error listed as 0.0, the value is less than 0.1, not zero.

Source: U.S. Census Bureau, 2010 and 2011 American Community Surveys.

In all, for the nation and eight states, a decrease in the share of incorporated self-employment was accompanied by an increase in the total number of workers. This combination of labor market changes may not be as contradictory as it seems. The result is consistent with research finding that an expanding economy encourages exits from self-employment by increasing opportunities in the wage-work sector of the labor market.⁹ The recent expanding economy has had a larger effect on incorporated self-employment than on non-incorporated self-employment. More states experienced significant changes in incorporated self-employment than in non-incorporated self-employment. This difference in effect is not surprising considering that incorporated self-employed workers, as a group, have higher educational attainment than nonincorporated self-employed workers.¹⁰ Although economic expansions improve employment opportunities for all workers, better-educated workers continue to enjoy an employment advantage. For example, in the economic expansion from 2002 to 2007, the unemployment rate for workers with only a high school degree remained nearly twice as high and the employment to population ratio remained at least 15 percentage points lower compared with workers with a bachelor's degree or more.¹¹

Demographic, Social, and Economic Differences Between Incorporated and Nonincorporated Self-Employed Workers

As a group, incorporated self-employed workers were different from nonincorporated self-employed workers in 2011 in many ways (Table 2). The percentages of male, White non-Hispanic workers and Asian non-Hispanic workers were all higher among the incorporated self-employed (+11.0, +7.1, and +2.0 percentage points, respectively). In addition, more incorporated, self-employed workers were aged 50 to 64 or married (+4.3 and +12.8 percentage points, respectively). Conversely, the percentages of Hispanic workers, all workers under 30 years of age, and all workers aged 65 and over were lower among the incorporated self-employed (-7.0, -4.9, and -0.6 percentage points, respectively).

Overall, incorporated self-employed workers appeared to have more human capital compared with nonincorporated self-employed workers. More incorporated self-employed workers had a bachelor's degree or more education or were U.S. citizens (+14.6 and +5.3 percentage points respectively) and fewer reported speaking English less than "very well" (-5.2 percentage points) compared with nonincorporated self-employed workers.

Considerably more incorporated self-employed workers were in the relatively higher earning management, business, science, and arts occupations or the sales and office occupations (+15.6 and +7.7 percentage points, respectively). Compared with nonincorporated self-employed workers, considerably fewer incorporated self-employed workers were in the relatively low earning services occupations or natural resources,

construction, and maintenance occupations (-15.8 and -6.0 percentage points, respectively).

The differences between incorporated self-employed and non-incorporated self-employed workers were, for the most part, smaller across industries. Fewer incorporated self-employed workers were in the other services industry and more were in the retail trade and manufacturing industries (-9.3, +3.4, and +2.7 percentage points, respectively).

In general, incorporated self-employed workers had better employment outcomes than non-incorporated self-employed workers. Considerably more incorporated self-employed workers were employed at their businesses full-time, year-round (+20.7 percentage points). Likewise, the percentage of incorporated self-employed workers with any health insurance coverage was higher compared with nonincorporated self-employed workers (+14.9 percentage points). Reflecting the educational and occupational differences between the two groups, incorporated self-employed workers earned substantially more than nonincorporated workers (+25,242 dollars).

After 18 months of recession, followed by 18 months of limited growth, 2011 brought an increase in the total number of workers in the U.S. labor market. However, this growth at the national level, and many state levels, was often accompanied by a decline in the share of incorporated self-employment. It is possible that incorporated self-employed workers' generally higher educational attainment better enabled them to take advantage of improved opportunities in the wage work sector. Educational attainment is only one area in which incorporated self-employed workers showed an

⁹ Rissman, E. R., "The Self-Employment Duration of Younger Men Over the Business Cycle," *Economic Perspectives*, Federal Reserve Bank of Chicago, 30(3), 2006.

¹⁰ Hipple, Steven, "Self-Employment in the United States," *Monthly Labor Review*, Bureau of Labor Statistics, 133(9), 2010.

¹¹ "Table 7, Annual Average, Household Data, 2003-2007," *Current Population Survey*, Washington, DC, Bureau of Labor Statistics, available on the Internet at <<http://bls.gov/cps/tables.htm>>, accessed on June 22, 2012.

Table 2.

Demographic, Social, and Economic Characteristics of Incorporated and Nonincorporated Self-Employed Workers: 2011

(For information on confidentiality protection, sampling error, nonsampling error, and definitions, see www.census.gov/acs/www)

Characteristics	Incorporated self-employed		Nonincorporated self-employed	
	Estimate	Margin of error ¹ (±)	Estimate	Margin of error ¹ (±)
DEMOGRAPHIC				
Sex				
Male	*71.7	0.3	60.7	0.3
Female	*28.3	0.3	39.3	0.3
Race and Ethnicity				
White, not Hispanic or Latino	*79.4	0.4	72.3	0.3
Black or African American, not Hispanic or Latino	*4.4	0.2	6.0	0.2
Asian, not Hispanic or Latino	*6.6	0.2	4.6	0.1
Native Hawaiian and Other Pacific Islander, not Hispanic or Latino	0.1	—	0.1	—
American Indian and Alaskan Native, not Hispanic or Latino	*0.3	—	0.4	—
Two or More Races, not Hispanic or Latino	*1.2	0.1	1.5	0.1
Hispanic or Latino	*8.1	0.3	15.1	0.3
Age				
Under 30 years	*5.0	0.2	9.9	0.2
30 to 49 years	*44.0	0.4	42.8	0.3
50 to 64 years	*41.2	0.4	36.9	0.3
65 years and over	*9.8	0.2	10.4	0.2
SOCIAL				
Citizenship				
U.S. citizen	*93.9	0.2	88.6	0.2
Marital Status				
Married	*75.4	0.3	62.6	0.3
Education Level				
Less than a bachelor's degree	*55.5	0.5	70.1	0.3
Bachelor's degree or higher	*44.5	0.5	29.9	0.3
English Proficiency				
Speaks English less than "very well"	*7.7	0.2	12.9	0.2
ECONOMIC				
Full-time, year-round employed	*73.4	0.3	52.7	0.3
Any health insurance coverage	*83.6	0.3	68.7	0.3
Median earnings in the past 12 months	*\$46,872	\$448	\$21,630	\$152
Occupation				
Management, business, science, and arts occupations	*49.5	0.4	33.9	0.3
Service occupations	*9.6	0.2	25.4	0.3
Sales and office occupations	*23.5	0.3	15.8	0.2
Natural resources, construction, and maintenance occupations	*11.6	0.3	17.6	0.2
Production, transportation, and material moving occupations	*5.8	0.2	7.3	0.2
Industry				
Agriculture, forestry, fishing and hunting, and mining	*3.5	0.1	5.7	0.1
Construction	*15.2	0.3	16.6	0.2
Manufacturing	*5.2	0.2	2.5	0.1
Wholesale trade	*4.1	0.2	1.8	0.1
Retail trade	*10.7	0.2	7.3	0.2
Transportation and warehousing and utilities	3.9	0.2	4.0	0.1
Information	1.3	0.1	1.3	0.1
Finance and insurance, and real estate and rental and leasing	*9.0	0.2	6.9	0.1
Professional, scientific, and management, and administrative, and waste management services	*22.6	0.3	20.2	0.2
Educational services, and health care and social assistance	*10.4	0.2	11.5	0.2
Arts, entertainment, and recreation, and accommodation and food services	*7.1	0.2	6.0	0.1
Other services, except public administration	6.9*	0.2	16.2	0.2
Public administration ²	(X)	(X)	(X)	(X)

* Estimates for incorporated self-employed are statistically different from the estimates for nonincorporated self-employed at the 90 percent confidence level.

— Represents or rounds to zero.

* Statistically different at the 90 percent confidence level.

(X) Not applicable.

¹ Data are based on a sample and are subject to sampling variability. A margin of error is a measure of an estimate's variability. The larger the margin of error is in relation to the size of the estimate, the less reliable the estimate. When added to and subtracted from the estimate, the margin of error forms the 90 percent confidence interval.

² Employment in Public Administration industry does not apply to self-employed workers.

Sources: U.S. Census Bureau, 2011 American Community Survey.

What Is the American Community Survey?

The American Community Survey (ACS) is a nationwide survey designed to provide communities with reliable and timely demographic, social, economic, and housing data for the nation, states, congressional districts, counties, places, and other localities every year. It has an annual sample size of about 3.3 million addresses across the United States and Puerto Rico and includes both housing units and group quarters (e.g., nursing facilities and prisons). The ACS is conducted in every county throughout the nation, and every municipio in Puerto Rico, where it is called the Puerto Rico Community Survey. Beginning in 2006, ACS data for 2005 were released for geographic areas with populations of 65,000 and greater. For information on the ACS sample design and other topics, visit www.census.gov/acs/www.

advantage over the non-incorporated self-employed. In general, incorporated self-employed workers had more human capital, were more likely to work in management and professional occupations, and had better employment outcomes.

SOURCE AND ACCURACY

The data presented in this report are based on the ACS sample interviewed in 2011. The estimates based on this sample approximate the actual values and represent the entire household and group quarters population. Sampling error is the difference between an estimate based on a sample and the

corresponding value that would be obtained if the estimate were based on the entire population (as from a census). Measures of the sampling errors are provided in the form of margins of error for all estimates included in this report. All comparative statements in this report have undergone statistical testing, and comparisons are significant at the 90 percent level unless otherwise noted. In addition to sampling error, nonsampling error may be introduced during any of the operations used to collect and process survey data such as editing, reviewing, or keying data from questionnaires. For more information on sampling and estimation methods, confidentiality protection, and sampling and nonsampling errors, please see the 2011 ACS Accuracy of the Data document located at www.census.gov/acs/www/Downloads/data_documentation/Accuracy/ACS_Accuracy_of_Data_2011.pdf.