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The Narrow Pathways to Wealth

Family Businesses and Employer-Business Ownership

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Executive Summary

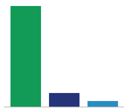
To build wealth and maintain wellbeing, is it better to own a business or work in a satisfying job? What role do entrepreneurial personality index scores play in the drive to become an entrepreneur and the financial performance of owners? What challenges do entrepreneurs face, and what distinguishes a business that builds wealth from one that does not?

Gallup's Pathways to Wealth Survey, conducted in the fall of 2023 with support from JPMorganChase and the Ewing Marion Kauffman Foundation, aimed to answer these questions. The survey revealed significant differences between business owners based on whether they were employers (business owners with employees) or non-employers (business owners without employees). Employers reported the highest incomes, asset values and subjective wellbeing among all working adults, while non-employer owners were roughly at the same level as employees.

Gallup recontacted 6,711 working adults from the original 2023 study one year later to observe their work situations, wellbeing, incomes and wealth, and to answer other outstanding research questions. Gallup also surveyed approximately 5,000 new adult respondents and conducted qualitative interviews with 24 business owners to gain deeper insights into the issues explored in this research.

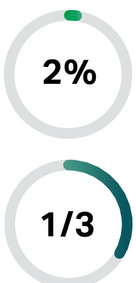
The primary results can be summarized as follows:

1) Wealth and wellbeing are highest among adults who report owning a business and employing workers for over a year, relative to all other work arrangements.



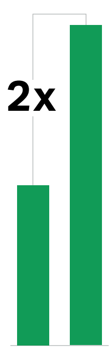
Median net worth for those who remained owner-employers is $670,000, compared to about $90,000 for those who were non-employer owners over both periods and roughly $38,000 for those who were employees only. Likewise, 71% of owner-employers are thriving in wellbeing, compared to 60% of non-employer owners.

2) Becoming and staying an employer is difficult, or at least rare.



As measured from fall 2023 to fall 2024, **only 2% of working adults owned a business that employs other people, and roughly one-third were no longer employers one year later**. Transitioning to becoming an employer is similarly rare. Just one out of 141 participants who were not owner-employers in Year 1 became an owner-employer one year later. For employees with no business ownership, less than half of a percent were owner-employers one year later. Even among non-employer business owners who mostly work for their own business, just 5% have workers one year later, and a minority, 27%, even considered hiring over the previous year. The data indicate that better management practices, credit worthiness, revenue growth and the use of business banking accounts were key contributors to becoming and staying an owner-employer.

3) Working for a parent's business predicts a higher likelihood of employing others as an adult.



The owner-employer rate is just 1.8% for working adults whose parents did not own a business. **The rate is twice as high for those whose parents owned a business**, but there is a large gap in owner-employer rates (4.7% vs. 2.1%) between those who worked for that business and those who did not. Thus, having parents who owned a business seems to only be helpful to future owner-employer prospects if the respondent worked for that business. Non-employer business owners do not seem to pass along, on average, a greater likelihood that their child will become an owner. Future owner-employer rates are particularly high (11.4%) if the respondent worked full-time for at least one year at their parent's business. Having worked for a family business, especially if full-time for at least one year, also predicts significantly higher management skills among current owners. White and Asian adults are more likely than adults from other racial and ethnic groups to have had this opportunity to work for a family-owned business.

Owning a business that employs others is a promising pathway to wealth, but it is a path less chosen and less completed, as few enter and many drop off along the way. The adoption of sound management practices is associated with a greater likelihood of remaining an owner-employer, but other predictors of endurance are largely out of an owner's control. People who get work experience at a parent's business are much more likely to become owner-employers in adulthood and more likely to leave their business to their own children. In this way, involving several generations of family members in a business is a promising avenue for building intergenerational wealth. For those without the opportunity to grow up working for a family business, internships and apprenticeships at small businesses may be useful for sparking future entrepreneurship. More research is needed to identify the relationship between working for small business owners and gaining the valuable skills that may lead to future entrepreneurial success.

Introduction

Building personal and intergenerational wealth is a goal for many working adults. Economic research on income and asset ownership suggests that business ownership plays an important role in income and asset accumulation.[1] Yet, there are important differences between business owners. One simple but important distinction is whether the business has any employees. Most firms (82%) do not, according to data from the U.S. Small Business Administration.[2]

To better understand the entrepreneurial conditions that lead to wealth generation, Gallup launched the Pathways to Wealth Survey in the fall of 2023, with support from JPMorganChase and the Ewing Marion Kauffman Foundation. That survey collected data from nearly 10,000 U.S. adults and over 3,000 business owners. One of the key findings from that work is that employers (business owners with employees) report much higher income, asset value and subjective wellbeing than non-employers (business owners with no employees), traditional employees and working adults with other arrangements (like self-employed workers).[3]

The 2023 Pathways to Wealth Survey yielded several other noteworthy findings. Demographic characteristics and entrepreneurial personality traits were related to the probability of owning a business and employing others, but many Black and Hispanic adults with entrepreneurial personality traits were not owners.[4] Possible reasons for this outcome included a lack of work at a family-owned business, less wealth, poorer credit history and difficulty getting capital. Black and Hispanic owners were more likely than other owners to believe racial discrimination or unfair treatment played a role in not getting approved for a loan or not getting the capital they sought.[5]

To dive deeper into these issues, Gallup fielded a second round of data collection one year later, covering many of the same topics but adding additional items on credit history and engagement with a family business. More than 6,000 previous respondents, along with additional employees and business owners, completed the survey in the fall of 2024, for a total of nearly 12,000 working adults and roughly 3,500 business owners. This report summarizes some of the key findings.

DEFINING OWNERSHIP STATUS

To answer our research questions, we considered five categories of workers:

1. **Employee only:** These adults are solely employees, the largest and most conventional category of workers. They comprise just under two-thirds of all workers.

2. **Mostly employee with other arrangements:** These employees do not file taxes as independent contractors or sole proprietors but do some work for their own self-employed businesses.

3. **Self-employed:** These individuals are mostly or entirely self-employed. Self-employment includes independent contractors, independent consultants and freelance workers who work for themselves and provide services directly to customers on a per-contract basis.

4. **Non-employer owner:** These adults do not indicate that they are self-employed and mostly work as a business owner or landlord, but they employ no one. This group comprises 6.9% of all workers.

5. **Owner-employer:** Employers who primarily work as a business owner or landlord and employ at least one other person. After applying weighting, they are the smallest group, representing just 2.4% of all workers.

Findings

Finding 1. Wealth and wellbeing are highest among adults who persist in owning a business and employing workers for over a year, relative to all other work arrangements.

The second year of data collection confirms that owner-employers earn substantially higher levels of income than other groups. Median annual personal income, which excludes any earnings from other members living in their household, is $120,000 for those who persisted as owner-employers from 2023 to 2024. We compared this to 10 other possible arrangements, using the combination of this year's and last year's work statuses (see Page 4 for definitions of work arrangements). After owner-employers, the next highest earning group is employees with other arrangements, with a median personal income of $76,000. These are mostly employees but earn some money from self-employment or a related business, without formally filing their taxes as self-employed or a sole proprietor. Employees only — or traditional employees — are next, reporting a median income of $63,000. Those who remained as owners with no employees report a median income of just $20,000, similar to those who are self-employed.

The high-income potential of business ownership is seen as a significant benefit:

"If you'd asked me different points in the journey, I would have told you something different. But if I'm talking specifically about right now, it's radically transformed my life. I'm making income that I dreamt about and was on my vision board. But I'm in it now, and I'm living it. And that's super cool — living my dream."

— *Owner-employer*

The Year 2 survey included questions about the value of assets and debts in various categories and used these to calculate net worth, which is a more comprehensive measure of financial prosperity than income since it includes assets and obligations, which are affected by past income and expenses.

Median net worth for those who remained as owner-employers is $670,000, compared to about $90,000 for those who were non-employer owners over both periods. Workers who are mostly employees but earn some self-employment income on the side report a median net worth of $85,000. Those who were employees only in both periods with no other income have a median net worth of just $38,000, and those reporting continuous self-employment have a median net worth of zero, where their positive assets equal their debt.

To assess subjective wellbeing, Gallup asked its two-item measure of life evaluation, in which respondents were asked to evaluate their life today and in five years on the same zero-to-10 "ladder" scale. "Thriving" is defined as scoring a "7" or higher now and an "8" or higher in anticipated wellbeing.[6]

Wellbeing outcomes are highly correlated with net worth: Seventy-one percent of owner-employers are thriving in wellbeing, compared to 60% of non-owners and 52% of workers who persisted as employees with no income from businesses or property. Just 44% of workers reported thriving if they mostly worked as self-employed in both years.

Higher income and wealth are likely to contribute to higher wellbeing, but owning a business may have direct effects as well:

"If you support small businesses, you are empowering the population ... There's nothing more exhilarating than doing it yourself ... We take pride in self-sufficiency in this nation, and a small business is that to the nines."

— *Owner-employer*

Similarly, one participant who was interviewed and is an owner-employer described intergenerational benefits for her family and the larger Black community through entrepreneurship, saying:

"How it changed for me was I was no longer pursuing (another organization's) mission and vision to now pursuing a mission and vision for my legacy ... You think about economic mobility. And it's how you thrive too, closing the wealth gap. That is huge. Entrepreneurship is one of the major ways for that to actually become a reality for so many in the underrepresented community."

— *Owner-employer, Black female*

CHART 1

Wellbeing, income and wealth by Year 1 and Year 2 work arrangements

All dollar values are in thousands

Year 1 work arrangement to Year 2 work arrangement	% Thriving in wellbeing	Median personal income	Median household income	Median asset value	Net worth
Owner and employer to owner and employer	71	$120	$190	$800	$670
Owner with no employees to owner with no employees	60	$20	$100	$105	$90
Self-employed to mostly employee with other arrangements	60	$53	$120	$58	$53
Mostly employee with other arrangements to mostly employee with other arrangements	57	$76	$140	$149	$85
Employee only to mostly employee with other arrangements	54	$45	$100	$18	$0
Employee only to employee only	52	$63	$110	$69	$38
Employee only to self-employed	52	$30	$76	$50	$22
Mostly employee with other arrangements to employee only	45	$50	$100	$9	$1
Self-employed to self-employed	44	$30	$80	$10	$0
Mostly employee with other arrangements to self-employed	40	$25	$125	$61	$33
Self-employed to employee only	38	$45	$100	$20	$3

Sample is 6,199 working adults, limited to those in work arrangements with at least 100 respondents.

Finding 2. Becoming and staying an employer is difficult, or at least rare.

Among all working adults in the United States, just 2% own a business that employs workers. Using data from Year 1 and Year 2, we calculated the percentage of working adults who transitioned into and out of owner-employer status, and what percent remained. Approximately 0.8% entered, 0.8% left and 1.4% remained. In other words, just one out of 141 working adults remained an owner-employer one year later. This result was observed from fall 2023 to fall 2024, during which many small business owners reported concerns about inflation and interest rates.[7]

To investigate these dynamics more comprehensively, we classified working adults by their Year 1 status and their Year 2 status. Among owner-employers in Year 1, 64% retained this status one year later. By comparison, 88% of workers who were employees only (with no business or self-employment income) remained in this arrangement. The rates among those who remained in a similar arrangement were lower for other combinations, such as being an employee with other arrangements, and among those who were mostly working as self-employed.

Transition into owner-employer status is relatively uncommon. The group most likely to enter were non-employer owners in Year 1. However, only 5% did so, and just 27% even considered hiring over the previous year. Non-employer owners were more likely to become employees only than they were to transition into owner-employers. A large percentage (16%) of non-employer owners said they mostly worked as self-employed after reporting in 2023 that they mostly worked for their own business.[8] For employees with no business ownership, just one of every 668 is an owner-employer one year later. Among the self-employed in 2023, just 2% became employers in 2024.

CHART 2

Percent of working adults in each work category in Year 2, by Year 1 work category

YEAR 2 STATUS

YEAR 1 STATUS	Employee only	Mostly employee with other arrangements	Owner and employer	Owner with no employees	Self-employed
Employee only	88	8	<0.5	1	3
Mostly employee with other arrangements	46	41	1	3	9
Owner and employer	5	11	64	9	11
Owner with no employees	7	14	5	58	16
Self-employed	22	17	2	9	50

Several owner-employers who participated in qualitative follow-up interviews described challenges related to employing others:

"People are tough. Keeping people happy is tough. I would imagine a lot of entrepreneurs say that it might be the biggest challenge, and it is ... Managing expectations is probably one of the biggest things, and the other thing is that when we are focused on bringing in that next dollar, we may not be giving time and care and attention to our employees."

— *Owner-employer*

Characteristics of the owners and their businesses predict whether the business was sustained as a source of employment for other workers, including owner race, management practices, credit history, banking practices and revenue growth.

Most Black and Hispanic owner-employers did not continue to operate an employer business one year later. Among these owner-employers, 41% remained owner-employers, compared to 68% of White owner-employers and 71% of owner-employers who identify as multiracial or other racial or ethnic groups.

Management practices were associated with the likelihood that an owner-employer sustained their business operations. These practices were measured with a scale developed in Year 1, using 17 survey items that yielded two distinct factors following exploratory factor analysis. The first factor identifies whether the business has systems in place to identify problems, whereas the second factor identifies corrective systems, such as those that would remove poor performers and solicit critical feedback and recommendations. As found in Year 1, the resulting index strongly predicts business performance and owner income. Owners who were in the top quintile (top 20th percentile) of management practices in Year 1 were much more likely to remain as owner-employers going into Year 2 than business owners who scored lower.

Some owners cite the difficulties in managing practices, particularly firing workers, but also their importance when employees are fundamentally not performing:

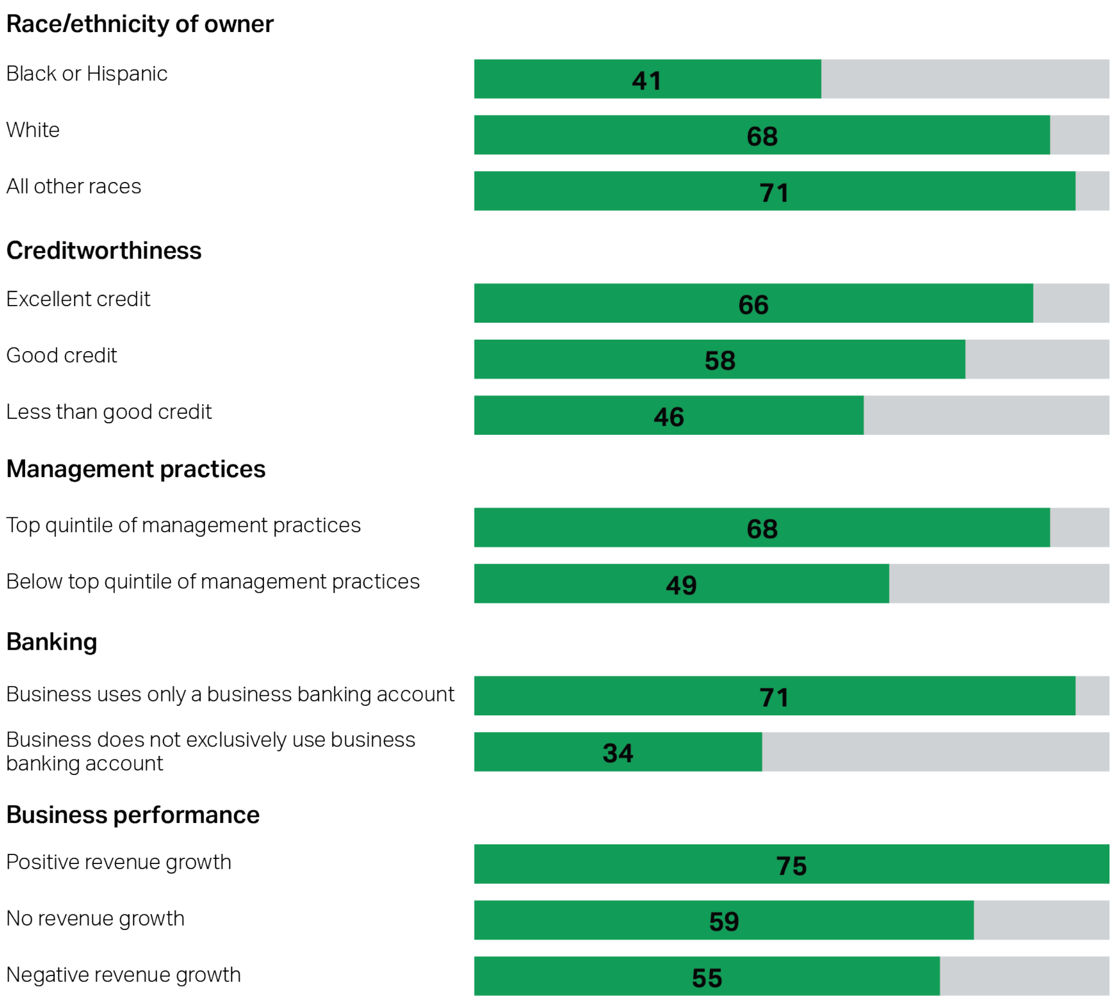
"It's an emotional rollercoaster. I ran a corporate restaurant and it's easy to hire and fire ... I don't care what the whole story is, I just know I need to get somebody in place to make sure they show up ... With a local small restaurant, I'm a lot more involved with these people's lives, and I can attest to being in some of these people's situations. So, it makes me a lot more sympathetic, and it makes me a lot more forgiving, but I am going, 'How much can I put up with?'"

— *Owner-employer*

Credit history is closely related to business continuity. Sixty-six percent of owner-employers with excellent credit sustained their business, compared to 46% with less than good credit. Likewise, businesses experiencing positive revenue growth were much more likely to remain between Year 1 and Year 2 of the study. Finally, business owners who use an exclusive business banking account — rather than a mix of personal and business banking or just personal — were more likely to remain as owner-employers between the two administrations of the study. The underlying causal relationships between this and the other associations are unclear. It may be that strong business performance encourages owners to open separate banking accounts, or it may be that opening a separate account is associated with other best practices in accounting and business management that are conducive to success. Other explanations are also possible, as these are mere associations. While the above associations emphasize individual choices, the difficulties associated with launching and sustaining employer ownership often go beyond individual circumstances, and include intergenerational patterns, as discussed in the next finding.

CHART 3

Percent of owners with employees who sustained employer status from Year 1 to Year 2, by characteristic of owner and business



Finding 3. Working for a parent's business predicts a much higher likelihood of employing others as an adult.

Prior research finds that entrepreneurial status is partly intergenerational in that having parents who owned a business is positively associated with an individual's likelihood of owning a business.[9]

The finding from the Year 2 data confirms that whether a parent owns a business has no effect on eventual owner-employer status unless the child works for the parent's business. This seems to mostly rule out a large role for genetic effects, which wouldn't depend on whether the respondent worked for the parent's business. However, more research is needed to further explore the relationship between the two.

There is a large gap in owner-employer rates (4.7% vs. 2.1%) between those who worked for the business and those who did not. Moreover, the probability of becoming a future owner rises with the intensity of the work opportunity. Future owner-employer rates are particularly high (11.4%) if the respondent worked full-time for at least one year at their parent's business.

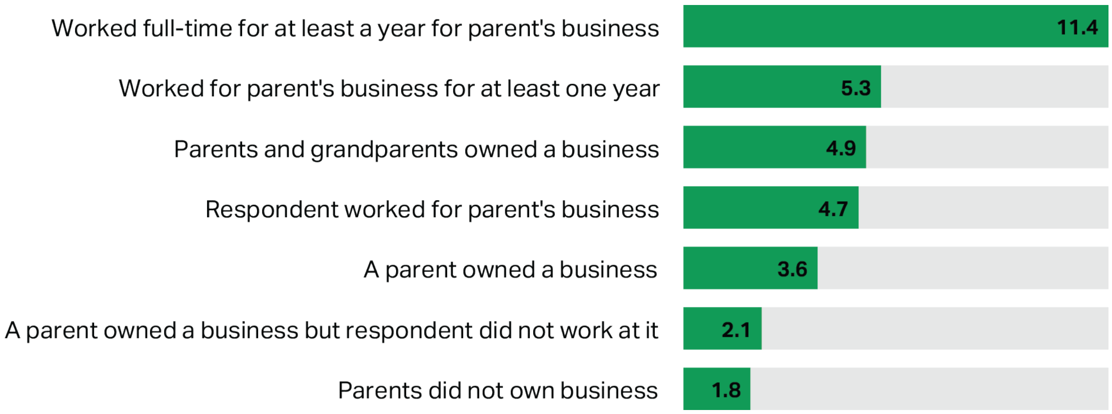
One owner-employer we interviewed spoke to the benefits of these family connections:

"Luckily, I have entrepreneurs in my family, so when setting up an LLC or getting a bank loan, et cetera, it was very great to have people just connect me."

— *Owner-employer*

CHART 4

Percent of working adults who own an employer business, by family business history



First item asks, "Did any of your parents own a business while you were a child?" Other items asked those who said yes for details. Calculations are re-based to reflect the total working population.

> **An owner-employer described some of the personal skills he observed watching his entrepreneurial parents:**
>
> "(My mother) ended up stepping out and taking over and founding and owning her own business. My father started his counseling agency business after he had been working in the field for so many years. So, I guess our family is very attuned to juggling multiple responsibilities already. I guess that's just how it is. And we always, you know, find time for family and we find time for friends."
>
> — *Owner-employer*

This observation is supported by the data. Respondents who say their family owned a business are slightly more likely to display best-practice management skills, using the scale described previously, than owners whose family did not own a business. The former score 0.10 standard deviations higher on the management scale. For those who also worked for their family business, the effect is 0.14, and the effect is even larger for those who worked full-time for at least one year (0.35 standard deviations).

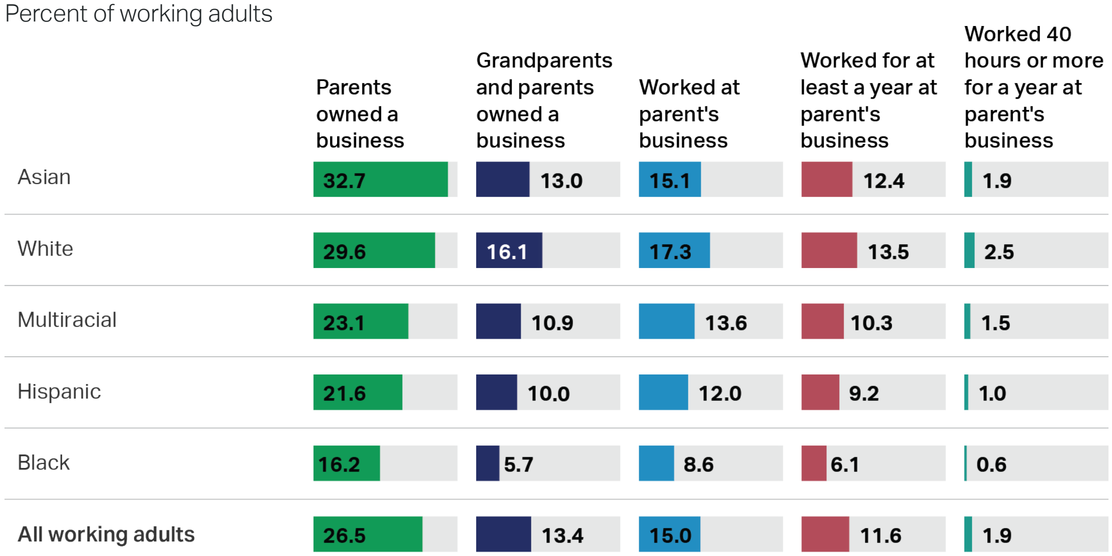
> **For other owners we spoke to, inheriting a family business provides motivation to persist:**
>
> "The previous person I worked for was my dad. So, with my company, that's something that I hold very dear as far as his legacy. Everything that I've done is because I want to bring honor upon his name and not shame."
>
> — *Owner-employer*

As noted in previous work, there are large gaps across race and ethnicity in the probability of a respondent's parent owning a business while the respondent was a child. White and Asian working adults are about twice as likely as Black working adults to report that one or more parents owned a business when the respondent was a child. This gap can partially explain employer-ownership rate disparities by race, but the gap is much wider when looking at the share of adults who worked full-time for at least a year for their parent's business. White adults are 4.5 times more likely than Black adults to have had this experience.

CHART 5

Family business ownership and work opportunities by race/ethnicity

Percent of working adults



First item asks, "Did any of your parents own a business while you were a child?" Other items asked those who said yes for details. Calculations are re-based to reflect the total working population.

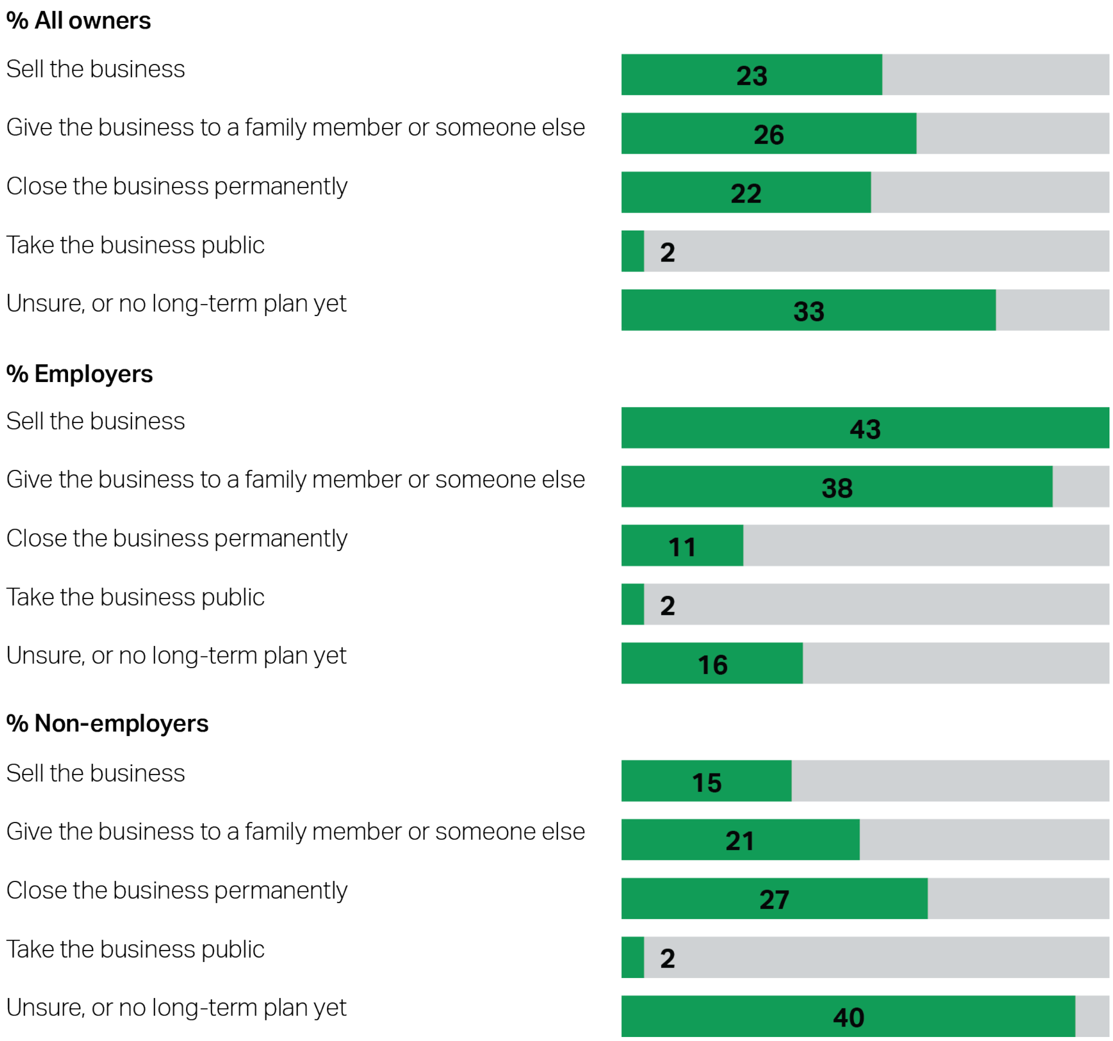
Aside from directly working for a family business in adolescence or early adulthood, some adult children benefit from wealth and property transfers of their parent's business. Looking to the next generation, these benefits are far more likely for owner-employers compared to non-employer owners. Asked about their plans before they step away from the business, 38% of owner-employers plan to give their business to a family member, compared to 21% of non-employer owners. Owner-employers are also far more likely to plan to sell the business, which may provide an additional opportunity for children to benefit through an eventual inheritance of the wealth generated from the business and its sale.

A participant who was interviewed spoke to a desire to give her business to one of her children, but given their lack of interest, she is planning to sell, ideally to someone who will keep the business in the neighborhood. She told us, “Hopefully, the proceeds from my sale help make sure I live comfortable.” Another owner spoke to the importance of succession planning and profitability in keeping businesses alive and allowing them to maintain benefits for the local community.

CHART 6

The long-term plans of business owners before retirement

Restricted to adults who mostly work for their own business



Sample size is 1,264 owners, of which 696 have employees.

Item text: What are your long-term plans for this business after you step away?

Conclusion

Entrepreneurship does not guarantee long-term wealth generation. Most business owners do not have employees, and among these non-employer owners who retain their businesses over one year, income tends to be lower than for those who are employees only — those who perform no ownership work. The median net worth of non-employer owners is somewhat higher than employees, and so is their overall subjective wellbeing, measured as the percent thriving. Entrepreneurs who identify as self-employed have even lower median net worth, income and wellbeing. A key distinction and key hurdle for financial success is whether owners can create a business that hires other people and whether they can sustain that business. Many people start their own business, but few transition into employers, and a large share of employers transition out into other arrangements. Management practices, business banking accounts, revenue growth and good credit are factors found to be associated with sustainment of owner-employer status over a year.

Adults who sustain owner-employer status over one year report higher net worth and higher wellbeing, alongside relatively high annual incomes. This makes owner-employer status an attractive but rare pathway to wealth. Navigating business development, capital needs and employee management issues presents many challenges to small business owners. Business coaching may be useful in guiding owners through some of the difficult decisions they face, potentially yielding greater sustainment rates.

One promising way to potentially bolster the supply of new owner-employers and enhance their management skills is to give young people opportunities to work for small businesses. Having a parent with a family business does not seem to matter, but working for that business does in terms of increasing the probability of owning a business and managing it according to best practices. Internship programs often focus on placing young people with large corporations, but for those interested in gaining skills and knowledge as an owner-employer, they are likely to be better off working closely with a small business owner. Research in this area is lacking, and a literature review could not identify any relevant studies that directly test the hypothesis that work experiences during early adulthood with non-parental small business owners raise the likelihood of eventual business ownership. Therefore, it would be valuable to test this link and simultaneously observe whether these experiences were best met through apprenticeships, mentorships or regular employment opportunities, in terms of the long-term effects on entrepreneurial intentions and behavior.

Methodology

Research design and survey execution

The methodology closely follows that used for the Year 1 Pathways to Wealth Survey, except that it includes previous Year 1 survey participants who provided recontact permission.[10] The goal was to get a representative sample of owners but still meet minimum reporting thresholds by race of owner for Black, Hispanic and White owners and for Kansas City metropolitan area residents.

Members of the Gallup Panel™ provided the largest source of data for Year 1 (9,279 responses). They had previously agreed to be part of Gallup surveys and provided their email addresses. Of these, 6,711 participated in the Year 2 survey. Additionally, Gallup recruited participants in Year 1 through mail sent to Paycheck Protection Program (PPP) funding recipients. Of the 549 total respondents recruited through this mechanism, 368 agreed to recontact and provided their email addresses. Of these, 104 participated in Year 2.

To increase the sample size for Year 2, Gallup recruited another 4,813 respondents from the Gallup Panel (based on 10,000 invitations) and 367 from mail-based surveys to recipients of Small Business Administration (SBA) funding (based on roughly 16,000 mail invitations).

Gallup also used the PPP and SBA databases to oversample businesses with 10 or more employees. Of the 3,589 respondents who earned money from their own business, 287 had 10 or more employees, with 140 of these coming from the SBA database. These business owners were awarded $50 for participation, whereas all other owners from these databases were given $15. Gallup Panel members have higher participation rates, so their incentive offer was lower. Gallup Panel members were generally offered $10 if they owned a business and $5 if they did not. To get enough sample to report for Kansas City metropolitan area and for each of the two largest minority racial/ethnic groups (Black and Hispanic), respondents in those categories were offered $10 regardless of ownership status.

The final sample size consisted of 11,891 working U.S. adults and included 3,589 “owners,” defined as anyone who received at least some income in the prior month from a business they own. Among these owners, 1,149 reported that they employed at least one employee other than themselves. Surveys were completed between Sept. 20 and Oct. 28, 2024, almost exactly one year after the Year 1 survey.

This final pool of respondents was then weighted to be representative of working employer-business owners and non-owners of employer businesses among the U.S. employed adult population. This was done using the 2022 Annual Business Survey (ABS), which is only based on owners of employer-businesses operating during the year 2021, and the 2021 American Community Survey (ACS).[11] Using both datasets, the number of U.S. adults was calculated based on owner-employer status, educational attainment, age group, race/ethnicity, sex, and residence in the Kansas City metropolitan area. The number of owners with these characteristics was calculated using the ABS, and non-owners were estimated by subtracting the number of owners from the total population (from the ACS). The final weight makes the respondents representative of the U.S. working population based on those characteristics.

Qualitative research methodology

Qualitative insights featured in this report were captured in a series of 24 virtual, hour-long, in-depth interviews with business owners. The primary sample for this study was randomly drawn from the database of respondents of the 2024 Pathways to Wealth Survey who had agreed to be recontacted for additional research. Participants were recruited via email and were invited to participate if they met the eligibility criteria. Eligibility for qualitative research required participants to:

1. currently own a business and work there full-time (30 hours a week or more)
2. identify as Black or Hispanic OR reside in the Kansas City metropolitan area

Nineteen participants were recruited through recontact after completing the Pathways to Wealth Survey. An additional five participants were identified through a list of business owners in the Kansas City metropolitan area provided by the Ewing Marion Kauffman Foundation and recruited via email.

Participants included both business owners who employ others and business owners who do not employ others.

Gallup researchers conducted interviews in English from December 2024 to January 2025. Verbal consent was collected at the start of each interview. Researchers used a semi-structured interview guide, informed by existing findings from Pathways to Wealth surveys and reporting.

All qualitative insights featured in this report are intended to supplement quantitative findings but are not designed or intended to be representative of a single population, including U.S. business owners.

Defining ownership status

To answer the research questions of this study, we grouped workers into one of five categories. Business owners fall into all but the employee only category. Throughout this report, results are shown for non-employer owners and employers, excluding self-employed workers and those who mostly work as employees.

1. **Employee only:** These adults are solely employees, the largest and most conventional category of workers.

2. **Mostly employee with other arrangements:** These employees do not classify their business activity as independent contracting or sole proprietorship but do some work for their own self-employed businesses and may pay the self-employment tax.

3. **Self-employed:** These individuals are mostly or entirely self-employed. Self-employment includes independent contractors, independent consultants and freelance workers who work for themselves and provide services directly to customers on a per-contract basis. They often file taxes as a sole proprietor or independent contractor, and most pay the self-employment tax.

4. **Non-employer owner:** Mostly work as a business owner or landlord, but they employ no one. They do not report mostly working as self-employed.

5. **Owner-employer:** Mostly work as a business owner or landlord and employ at least one other person.

In this report, the difference between someone classified as self-employed versus a non-employer owner is subtle. It comes down to how they answered these three questions:

1) "Over the last 30 days, have you worked for yourself or a business that you own, even for as little as one hour?"

2) "Over the last 30 days, did you earn any money working for yourself as an independent contractor, independent consultant or freelance worker?"

3) "Over the past 30 days, on which type of work did you spend the most hours?"

If the respondent mostly worked as self-employed, then they are classified as self-employed, unless they also reported having employees when later asked. In that case, they are classified as owner-employers. If the respondent reported working mostly for a business that they own, but not as an independent contractor, they are classified as a non-employer owner if they have no employees. Non-employer owners are more likely than self-employed workers to file taxes as a partnership (LLC) or S-corporation. Most self-employed workers file their income as coming from self-employed work or a sole proprietorship.

About Us

ABOUT EWING MARION KAUFFMAN FOUNDATION

The Ewing Marion Kauffman Foundation is a private, nonpartisan foundation that provides access to opportunities that help people achieve financial stability, upward mobility, and economic prosperity – regardless of race, gender, or geography. The Kansas City, Mo.-based foundation uses its grantmaking, research, programs, and initiatives to support the start and growth of new businesses, a more prepared workforce, and stronger communities. For more information, visit www.kauffman.org.

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Endnotes

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8 We allowed adults to identify as self-employed, business owners or both, and if both, we asked which type of work they spend the most time doing. Some of the distinctions between non-employer business owners and self-employed may simply be nominal. Others may be more substantial; for example, non-employer owners (or sole proprietors) who own a business may be employees of their own business without having other employees. Their business may be organized as a partnership, S-corporation or even as a corporation, and they may be paid employees of this entity, entitled to both labor income (e.g., a salary) and business profits. A truly self-employed worker, one could argue, is not an employee of the business, and all income earned is labor income rather than profit. In reality, there are no fixed legal or cultural distinctions between these terms, which is why we let the respondents guide us by asking which type of work best describes their situation, regardless of tax or legal arrangements.

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