

FAQ: How does the government define “small” business?

The regulatory definition of what qualifies as a “small business” eligible for certain assistance and preferences, including set-aside contracts, depends largely on the nature of the firm’s work. The federal government publishes Codes under the North American Industry Classification System (NAICS) to define thousands of different categories of work. Agencies then issue solicitations for small business set-aside contracts under a certain NAICS Code that matches the type of work involved.

For each NAICS Code there is a Size Standard threshold used by the government. A firm must be small enough to fall below this threshold. For certain NAICS categories, this threshold is quite high, and firms with annual revenues in the tens of millions of dollars can still be considered small.

The size of a firm is calculated in one of two ways: either by the average number of employees over the past 12 months, or by the average annual revenue/receipts over the last 3 years. The revenue measurement is based on the company’s entire revenues, including all the revenue of its affiliated companies, not merely its revenues related to a particular NAICS Code or type of work. It is important to remember that the size of a firm is often only the first factor that must be satisfied to be eligible for certain other designations allowing set-aside awards. For example, even if a firm meets the Size Standard, it must usually still satisfy several other factors in order to be deemed “disadvantaged” for purposes of 8(a) or SDB set-asides. For set-asides that are simply for “small businesses,” though, satisfying the Size Standard for the relevant NAICS Code is usually all that is required.

When becoming certified as a “small business” by the SBA, a firm identifies the primary NAICS Code(s) that best reflects the main area of its business. However, this does not necessarily limit the firm to winning set-aside contracts for only that work that is assigned to its primary Code(s). As long as the firm can demonstrate that it performs work in the areas represented by a particular solicitation’s NAICS Code(s), and that it qualifies as a “small business” under the applicable NAICS Code(s) for that contract, then the firm is usually still eligible for a set-aside award.