RESEARCH BRIEF

The Prevalence of Criminal Records Among Small Business Owners

Small businesses whose owners have criminal records are often ineligible for federal assistance programs. One recent high-profile example of a program with such restrictions is the Paycheck Protection Program (PPP), which was part of the Coronavirus Aid, Relief, and Economic Security Act. The PPP provided money for payroll, rent, mortgage, and utilities to businesses with fewer than 500 employees.

Initially, companies owned by individuals with felony criminal records were ineligible to receive funds. The restrictions were later eased to expand the number of eligible small businesses. However, the PPP restrictions, in both their strict and relaxed forms, were adopted in the absence of solid information about their effects.

How Many Small Business Owners Have Criminal Histories?

To address this knowledge gap, a RAND team

- estimated the national prevalence of small business owners with criminal records
- estimated how many small business owners, businesses, and employees were potentially affected by the initially strict PPP restrictions and how these numbers changed when the Biden administration eased restrictions
- examined prevalence in two states (Minnesota and North Carolina) to gain a more granular view of effects on particular industry sectors
- compared the state estimates with the estimates developed through the Criminal Justice Administrative Records System (CJARS).

KEY FINDINGS

- More than 3.8 percent of U.S. small business owners have a criminal record, and about 1.5 percent have a felony record.
- Restrictions under the original PPP disqualified more than 140,000 small business owners, 212,000 small businesses, and 343,000 employees from receiving funds.
- Federal policy changes dramatically mitigated the impact of felony restrictions on the PPP.
- State-level estimates showed that across industries, 2.5 percent of businesses had owners with some criminal history, with construction business owners (3.4 percent) hardest hit.

The analysis presents the first-ever national estimate of U.S. small business owners who have criminal records. The researchers used information from a data-aggregation company that collects and organizes data on business ownership and criminal history records, linking individual criminal records with information about company ownership. To obtain a more granular estimate, researchers used data from a different source to estimate prevalence numbers in two states (Minnesota and North Carolina) and used these data to examine how estimates vary by industry sector.

The national estimates (Table 1) show that 3.8 percent of small business owners have a criminal record. This percentage corresponds to approximately 1.1 million small business owners. More than 1.7 million employees are affiliated with these businesses. Within the group of business owners who have criminal histories, approximately 433,000 have a history of felonies.

How Many Business Owners, Businesses, and Employees Are Affected by PPP Restrictions?

The original PPP had sweeping restrictions. Among these, it excluded anyone convicted of a felony within the past five years. After subsequent revisions, only those convicted of a felony and currently incarcerated for a felony were ineligible for PPP funding.

As shown in Figure 1, the original PPP restrictions disqualified

- 140,000 small business owners
- 212,000 small businesses
- 343,000 employees.

The national prevalence rate among all businesses was 0.47 percent.

The revised PPP restrictions substantially reduced these numbers: 0.03 percent of small business owners were potentially affected, translating into approximately

- 11,000 small businesses
- 7,000 small business owners
- 18,000 employees.

Approximately 241,000 more businesses were eligible for the PPP under the revised restrictions.

State-Level Analyses Provided More Detail in Some Sectors

Using data on two states—Minnesota and North Carolina—researchers examined prevalence rates by industry sector. They focused on the construction and hospitality industries, which were expected to be most affected by felony restrictions. Approximately 3.4 percent of the owners of construction small businesses and 2.5 percent of the owners of hospitality businesses had some criminal history (Figure 2). Overall, 2.5 percent of owners across all other industries had some criminal history. Of those, less than 1 percent had felony records and less than 0.3 percent had a felony within the past five years.

RAND's Estimates Are Consistent with CJARS Results

The RAND team compared the national estimates of small business owners with felony convictions in the last five years with the CJARS estimates of small business owners with such recent felonies. The CJARS estimates are for sole proprietorships in seven states, while RAND's estimates are for all businesses with fewer than 500 employees and were pulled from nationwide data. Despite differing definitions, the RAND estimates are consistent with the CJARS estimates in the states for which there is overlap (see Table 2). For example, the CJARS estimates show a prevalence of 0.7 percent for North Carolina, while RAND researchers estimate 0.87 percent for that state; for Pennsylvania, the CJARS estimate of 0.6 percent is close to RAND's estimate of 0.5 percent. The RAND results showed lower rates than CJARS in Michigan (0.44 percent versus 2 percent) and New Jersey (0.05 percent versus 0.6 percent) and higher rates in Texas (1.16 percent versus 1 percent). CJARS estimates in Michigan and Texas might differ from

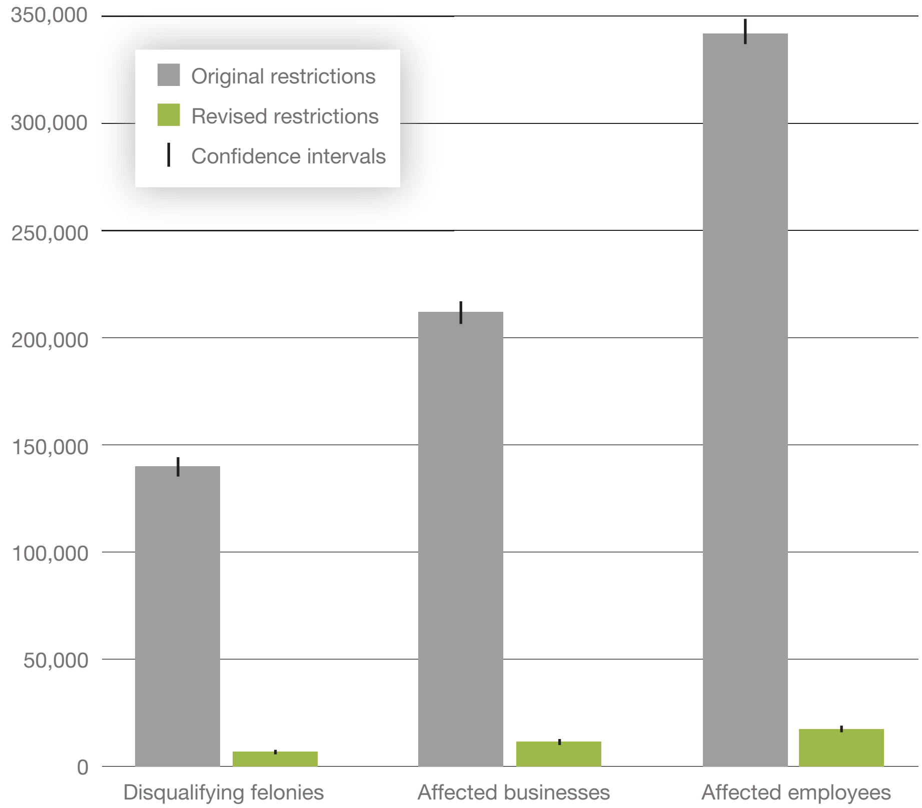
TABLE 1

More than 1.1 Million Small Business Owners Have a Criminal Record

	Business Owners	Associated Businesses	National Prevalence
Any criminal history	1,136,309	1,730,790	3.83%
Any felony record	433,013	661,113	1.46%

FIGURE 1

The Numbers of Small Businesses, Owners, and Employees Affected by the Original Paycheck Protection Plan Restrictions Dropped Substantially Under the Updated Restrictions



NOTES: Under the original felony restrictions, 0.47 percent of our nationwide estimate of 45,159,461 small businesses were affected. Under the revised restrictions, 0.03 percent were affected—a reduction of 95 percent.

those of RAND researchers because CJARS data for those states has been extensively curated.

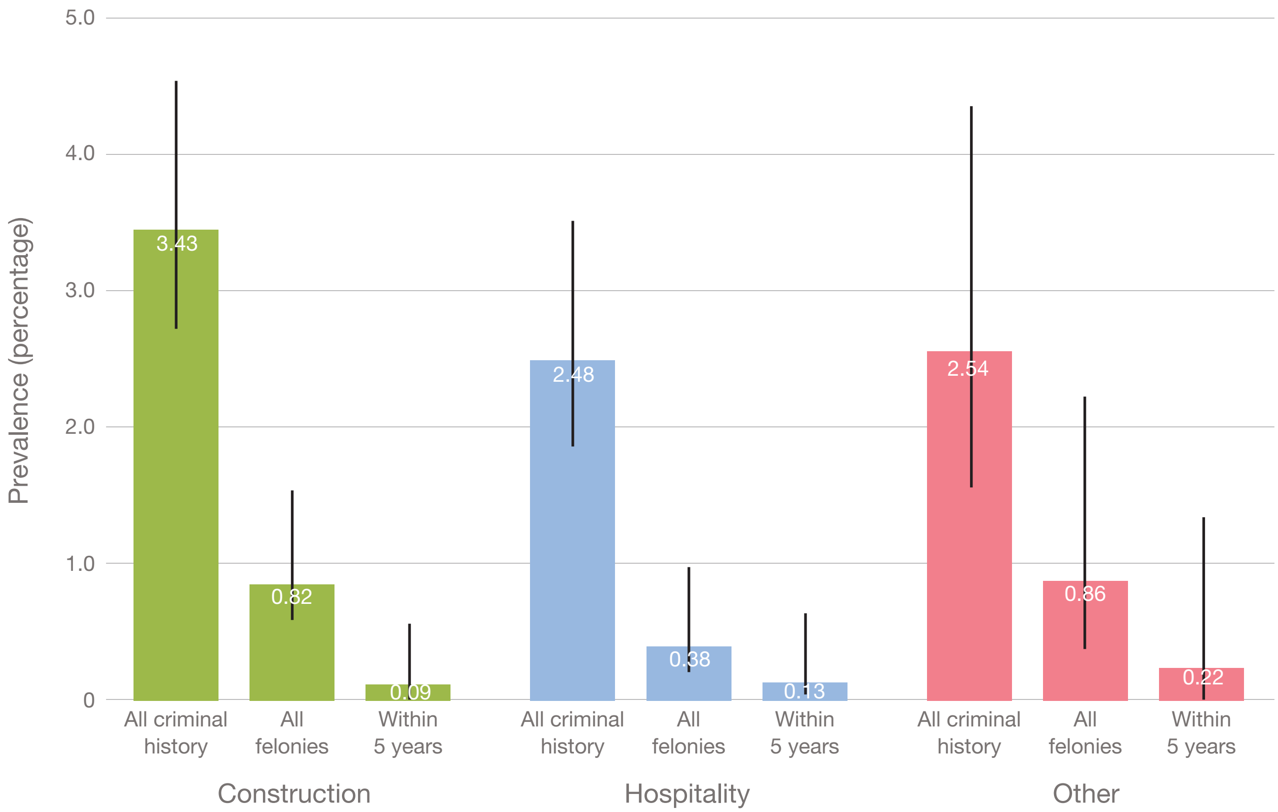
Conclusion

The researchers found that an estimated 3.8 percent of small business owners nationwide have a criminal record. Approximately 0.5 percent of small businesses were disqualified from benefits under the original PPP rules; under the relaxed rules, this prevalence fell to 0.03 percent, and the revised rules would allow up to 201,000 more businesses and an additional 326,000 employees to benefit from the program. Some owners and businesses will benefit more than others. Although we do not have complete data on race, our estimates suggest that 24 percent of businesses affected by the original restrictions were owned by African-Americans.

This analysis makes unique use of large-scale commercial small business and criminal history record information. To the best of our knowledge, this is the first time this kind of data has been used by researchers to generate national estimates of the prevalence of criminal records in the United States. A main challenge with this type of estimate is the limited information about the completeness of the criminal history records from the aggregator across states. A comparison of the prevalence estimates showed that many states with the lowest estimates were also states for which the aggregator did not have statewide court information. Further documentation of the strengths and weaknesses of the commercially aggregated data would make similar analyses more valuable in the future.

FIGURE 2

Criminal and Felony History Records in the Construction and Hospitality Industries



NOTE: Data weighted to reflect the distribution of small businesses in the 2012 Survey of Business Owners.

TABLE 2

CJARS Estimates of Recent Felony Prevalence Are Consistent with RAND Estimates

State	CJARS Estimate	RAND National Estimate
Texas	1%	1.2%
North Carolina	0.7%	0.9%
Pennsylvania	0.6%	0.5%
Wisconsin	0.7%	1.6%
Michigan	2%	0.4%
Minnesota	—	0.2%
New Jersey	0.6%	0.05%

NOTE: The CJARS analysis was of sole proprietorships (five or fewer employees), while RAND's analysis examined small businesses (fewer than 500 employees).

This brief describes work done in RAND Social and Economic Well-Being and documented in *Small Businesses, Criminal Histories, and the Paycheck Protection Program*, by Shawn D. Bushway, Dulani Woods, Denis Agniel, and David M. Adamson, RR-A1295-1, 2021 (available at www.rand.org/t/RRA1295-1). To view this brief online, visit www.rand.org/t/RBA1295-1. The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest. RAND's publications do not necessarily reflect the opinions of its research clients and sponsors. **RAND**® is a registered trademark.