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There's an Application for That: Assisting Latino Businesses in Navigating the Permit Process

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Abstract

The majority of Hispanic-owned businesses in the US are classified as ‘nonemployer,’ meaning that they are firms without paid employees, generally run by sole proprietors and partners. Emblematic of ‘nonemployer’ businesses are family-owned and operated retail establishments, auto repair shops, restaurants, and cleaning businesses. Such retail and service industries require special permits to operate (such as health department permits and liquor licenses) or require building permits to expand or renovate business spaces. Building codes, health codes, and other forms of regulation are difficult to access, navigate and understand for many Latino business owners because of lack of English fluency, knowledge of existing regulation, or access to technology. Personal investment and assumption of risk is exceptionally high in immigrant-owned businesses. The cost of business failure, then, is also extremely high on individual families and on the community as a whole. Failure to file the necessary paperwork or receive adequate permission for operation can be financially disastrous and force business closure. This paper presents several best practices in addressing the knowledge gap about business regulation among Latino entrepreneurs.

Keywords: Latino, immigrant entrepreneurship, community and economic development, Extension

According to the US Census Business Survey, the percentage of Hispanic-owned businesses in the United States has increased by nearly 45% during the five years from 2002 to 2007 (U.S. Department of Commerce, 2010). Hispanic-owned businesses generated over \$345 billion dollars in revenue in 2007, an increase of 55% from 2002 (U.S. Department of Commerce, 2010). It is anticipated that this number will continue to increase at a fast pace given the demographic transition in the US, whereby Hispanics are expected to comprise approximately 30% of the population by 2050 (U.S. Department of Commerce, 2010).

The majority of Hispanic-owned businesses in the US are classified as “nonemployer,” meaning that they are firms without paid employees, generally run by sole proprietors and partners. Family-owned and operated retail establishments, auto repair shops, restaurants, and cleaning businesses are emblematic of “nonemployer” businesses. Hispanic nonemployer businesses in the US numbered around 2 million and generated nearly \$70.7 billion dollars in receipts in 2007, up almost 67% from 2002 (U.S. Department of Commerce, 2007). In rural Iowa, the overwhelming majority of Latino-owned businesses are retail and restaurants and are located in or surrounding central business districts. Thus, a thriving Latino business community is essential for the economic health and vitality of Iowa towns that have a recent history of Hispanic in-migration.

The number of Hispanic residents in Iowa has steadily increased over the past two decades. According to the Iowa Data Center, 5.3 percent of Iowa residents were Hispanic in 2013. This represents a nearly 96 percent increase since the year 2000 (State Data Center of Iowa, 2013). Despite the overall percentage, Latinos remain under-represented in local politics and community decision-making. Monolingual Spanish speakers and those who feel most comfortable communicating in Spanish are less likely to participate in formal organizations such as the Chamber of Commerce, Main Street business associations, and service clubs. This translates to a lack of support for established Latino-owned businesses and a lack of assistance for Latino start-ups.

Instead, Latino business owners often access personal, informal networks in seeking business advice and assistance. This includes family members, fictive kin, individuals from the same community of origin, and members of the same church. They leverage these personal relationships to overcome some of the barriers in opening a business, such as lack of knowledge about government regulations and limited access to credit. Personal investment and assumption of risk is exceptionally high in immigrant-owned businesses. The cost of failure, then, is also extremely high on individual families and on the community as a whole. Failure to file the necessary paperwork or receive adequate permission for operation can be financially disastrous and force business closure.

While many small business owners may start their retail or service business out of their homes or on an ad hoc basis, in order for the business to grow, owners must consider moving from the informal sector to formal recognition by local, state, and federal authorities. Applying for and acquiring the necessary permits for operation, such as a Business eFile Number (BEN) to pay sales tax or a mobile vendor license, represent a critical step away from operating “off the books.” For Latino and immigrant business owners, this can be a fraught decision, especially if language and status barriers exist. The tangle of paperwork and bureaucracy is daunting enough, no matter what one’s comfort level with English, but the culture of American bureaucracy and regulation is peculiar and non-intuitive, except, perhaps, for those individuals who have become its natives: county clerks, registrars, and tax preparers (to name a few). If the prospective business owner is also undocumented, filling out the tax paperwork and permit applications are troublesome, as every application asks for a Social Security Number. Is it best to write in one’s ITIN (Individual Taxpayer Identification Number) or register the business in someone else’s name? The fear is that registering with an ITIN may trigger increased scrutiny by the IRS and/or by ICE (U.S. Immigration and Customs Enforcement).

In my work as a Community and Economic

Development Field Specialist with Iowa State Extension, I am charged with working specifically with Latino, immigrant, and refugee communities throughout the state. Part of this work entails outreach and assistance to entrepreneurs and small business owners. The majority of my clients hear about my services through existing networks of social service providers and civic groups, such as churches and cultural organizations. On rare occasions, a Chamber of Commerce or city code inspector will contact me to communicate with a Latino business owner about a specific issue.

While my work includes assisting business owners in the financing of their businesses, often this assistance is not called upon. In Iowa communities with sizeable Latino populations, many financial institutions will offer teller and banking services in Spanish. While some Latino business owners have had success interfacing with banks, most of the businesses I work with have been self-capitalized. Self-capitalization is generally the preferred option because of the apparent mistrust of bank loans and/or not qualifying for business loans because of assumed risk. In other words, business owners and entrepreneurs are not coming to me for financial guidance, but rather for practical start-up advice in how to make their businesses conform to federal, state, and local regulation.

Assistance to meet regulations is where there exists a critical gap in services to non-English speaking entrepreneurs in Iowa. While banking services may be available in Spanish, it is doubtful as to the ability of bankers to assist with all of the paperwork necessary for applying for various permits or of their knowledge of which permits need to be applied for. None of the Iowa Small Business Development Centers (SBDC) has the staff capacity to work in a language other than English. Likewise, the Chambers of Commerce in the communities where I work in Western Iowa have limited abilities to serve non-English speaking business owners. This leaves the majority of immigrant and Latino entrepreneurs learning about government regulations and permits through their social and business networks. Often times, business owners do not know about the neces-

sary permits until the business is cited for non-compliance. This leaves the door open for considerable more risk for Latino entrepreneurs than for their Anglo counterparts. Two short anecdotes will make this clear.

I first met Gloria several months after she had opened her small grocery store in the downtown area of a Western Iowa town with about 8,000 people. Gloria, originally from Guatemala, had been in the United States for approximately seven years prior to deciding to open the business. With help from her teenage daughter, Gloria had set out to register their business in Iowa in order to receive the BEN and sales tax permit through what they thought was the correct website. Gloria's daughter diligently filled out the requisite information on the on-line form with her mother. At the end of the process, they took out a credit card and paid the requested \$200 processing fee, being assured that their business would be registered and the permits in the mail. I had asked about the permits in our first encounter and Gloria assured me that they had taken care of it and were waiting for the permits, leaving out the detail that she had paid a sizable fee for the permit. I offered to help set up the account when the BEN arrived and teach her and her daughter how to pay sales tax using the online system.

When I came back to the store a month later, I asked about the sales tax permit, to which she replied with surprise that it had never arrived in the mail. She and her daughter had made a special trip to Des Moines, nearly two hours away, to ask the Iowa Department of Revenue in person why they hadn't received their permits yet. There they were told that the forms had never been received. Additionally, Gloria learned that applying for a sales tax permit and business identification number was free. When I reviewed the paperwork she had originally submitted, it became clear that Gloria and her daughter had entered their information to an online tax ID "service" that they found doing a Google search for "IRS tax ID." The first three links are ads for online companies that charge for the simple filing of paperwork to receive Employer Identification Numbers (EIN) and BEN. They had mistaken the first of

these websites for the IRS portal. Nearly two months after having paid for the online company's service (and not realizing they had not submitted the paperwork to the IRS), Gloria had not received any word from the company as to the status of her application. Phone calls to the company requesting an update or a refund have been unsuccessful. Not only was Gloria a victim of fraud, she also submitted personal and business information to the company, including her ITIN, full legal name, and address, putting her at-risk for identity theft.

On an initial outreach visit to Latino retailers in another Western Iowa community of 11,000 people, I visited a restaurant owned by Doña Carmela. Doña Carmela had recently taken over a taquería business that shared a space with a tienda, although the two establishments had different owners. A handmade sign at the counter informed customers that alcoholic beverages would no longer be served at the taquería. The phrasing of the sign made it sound as if the restaurant had lost its liquor license. It took several visits, over a two-month period, with Doña Carmela, to learn that the establishment had not lost a liquor license. Rather, the former owners had been selling beer without a license. Knowing they needed one, but unsure how to obtain a liquor license, Doña Carmela and her husband decided it was best not to sell beer at all. We discussed the licensing process and costs and finally went to visit the city clerk together to apply for one. With me translating, we were able to fill out the necessary paperwork, pay the application fee, and write down the next steps in the City's process, including attending a public hearing. Doña Carmela and her husband showed up to the City Council meeting several weeks later, where their application was approved. They also received the state license in the mail. In less than a month and half they were able to sell beer in their restaurant, representing a \$900 per month increase in profit. They also began a positive relationship with city staff, especially the City Clerk who took a special interest in the couple and assured them that they could come to her in the future with any questions regarding permits.

These examples show the difference that targeted outreach about bureaucratic procedures

to Latino entrepreneurs can make in facilitating business success. It also demonstrates the need for concerted liaison efforts by local officials and agencies such as city offices, Chambers of Commerce, and local representatives of the SBDC to reach out to Latino and immigrant communities. Yet most rural communities in Iowa lack the capacity and, in some cases, the political will, to assist in business development efforts with populations who are culturally and linguistically different from the Anglo majority.

While there is some outreach material from the IRS and the Small Business Administration in Spanish, these materials are often difficult to access and use. They require Internet service and, as Gloria's case demonstrates, getting to the correct information and understanding the forms one is filling out is not an easy endeavor. There also exists a gap in available outreach materials for the state and local level. There are many permits that require an interplay of agencies at different levels of governance. For instance, health department permits for food establishments, liquor licenses, and building permits may have state, county, and city requirements. The increased complexity at the local level makes it impracticable for the development of outreach material at the state and federal level that walks clients through the permitting process.

Local outreach remains the best means of assisting small business owners because it allows for face-to-face contact and the development of trust and rapport. Designated Extension positions that work with Latino and immigrant communities can certainly help play a bridging role. Likewise, working in conjunction with social service providers may be an option for reaching out to Latino and immigrant entrepreneurs. However, there is no replacement for having bilingual city staff that can assist in explaining both the process and reasoning for existing permits. Not only does this build better trust between local governance and Latino community members (perhaps even leading to increased participation in public meetings), it also leads to successful economic development for the municipality. Downtown districts in rural Iowa are hurt by a constant turnover of failed retail ventures.

Assisting Latino and immigrant entrepreneurs in permit applications leads to more stable business districts and has appreciable economic impact for the community. For instance, the city of Denison, Iowa, where 42 percent of the city population of 8,300 identifies as Hispanic, has made significant progress in this direction by hiring a bilingual code inspector. While code inspection is primarily about enforcement, over time the person in this position has been able to gain recognition within the Spanish-speaking community as someone to consult with prior to renovating or starting a business. Such an eye to prevention saves heartache and money.

By drawing on social networks, Latinos have made considerable inroads in establishing successful businesses in Iowa's communities. However, how many more Latino businesses would thrive if they were better informed about necessary permits and regulation? Fostering mutual trust and support between Latino entrepreneurs and the broader community are essential components to improving the situation of the Latino community while also aiding in strengthening Iowa's cities and towns. Face-to-face outreach that takes the time to develop on-going relationships serves as the best means to accomplish this. Local government and business groups would benefit from increasing their capacity to do outreach with Latino and immigrant communities.

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