



Connected Commerce
Council

Artificial Intelligence, Smart Policy: Crafting the AI Legislation Small Businesses Need to Succeed

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About 3C

The Connected Commerce Council (3C) is a nonprofit organization with a single goal: to promote small businesses' access to digital tools and technologies. 3C helps ensure small businesses have access to the market's most effective digital tools; provides coaching and educational resources to help small businesses optimize growth and efficiency; and cultivates a policy environment that considers and respects the interests of today's small businesses.

Introduction

Artificial intelligence (AI) is rapidly transforming how small businesses operate. Powerful, affordable, and customizable, AI-based tools and services help small businesses dramatically improve operational efficiency — allowing them to grow and successfully compete with larger companies.

As policymakers consider rules for AI, it's critical that they understand how AI-powered tools empower small businesses to succeed in today's digital economy, how a patchwork of state-level AI rules jeopardizes small businesses' AI adoption and use — and how urgently small businesses need a federal AI regulatory framework to ensure they can continue responsibly using AI tools to compete and succeed.

Executive Summary

AI-powered business tools — from writing helpers to expense and inventory trackers — are streaming into the marketplace. These new tools empower small businesses by providing specialized, high-value services at affordable prices — allowing businesses to save time and money, invest in new products and growth strategies, and successfully compete with larger rivals.

But small businesses' access to AI-powered tools is in jeopardy. As more and more states enact their own AI rules, the costs and complexities of compliance will become increasingly unmanageable for small businesses. In addition, AI tool providers will be forced to pass along new compliance-related costs to their small-business customers, further reducing AI-powered tools' accessibility to small businesses. Today's growing patchwork of state AI laws is likely to make AI-powered tools more difficult and expensive to use — threatening small businesses' success in the digital economy. **Small businesses need thoughtful, comprehensive national AI legislation that ensures their continued access to AI-powered tools.**

America's Small Businesses Run on AI-Powered Tools

Small businesses are critical to the American economy — providing **nearly half** of all U.S. jobs. Whether they're Main Street storefronts, family-run manufacturers, or online sellers, small businesses keep local communities thriving.

Today, even the smallest businesses use AI-powered tools for core business operations like bookkeeping, inventory management, and creating effective marketing campaigns. Already, **over half** of small businesses say AI-powered tools are critical to their success. **Nearly two-thirds** say AI-powered tools help them compete with bigger players, and **sixty percent** expect AI to help them expand into new products and markets.

Small-Business AI Basics

What is AI?

Artificial intelligence (AI) refers to systems and technologies that allow computers to learn, reason, and quickly perform various complex tasks that — until now — have required human intelligence. In practical terms, AI can recognize patterns, “learn” from information, and communicate much as humans would. This may include answering questions, summarizing documents and conversations, spotting unusual activity, or analyzing data.

How do Small Businesses Interact with AI?

Small businesses rarely interact directly with AI technologies. That's because AI is built into tools and applications small businesses use — just like motors are built into vehicles and equipment. Small businesses are AI “end users,” leveraging the finished tools into which AI technologies are integrated. Importantly, that means regulations intended for developers and deployers of AI technologies also impact small-business AI end users — just as regulations for motor designers and manufacturers impact the users of motorized vehicles and equipment.

AI-powered tools are imperative to my business's success — allowing us to grow and thrive in today's complex, chaotic global marketplace.

— Sarah Wells, FOUNDER, SARAH WELLS BAGS

How AI-Powered Tools Help Small Businesses Compete and Succeed

AI-powered business tools offer broad, deep capabilities that — in the past — required large teams or high-priced experts. Before AI's arrival, such capabilities were only accessible to large, deep-pocketed companies. Today, AI-powered tools offer elite capabilities at affordable prices — making them powerful efficiency boosters and competitive-field levelers.

AI-powered tools can quickly perform high-value, labor- and expertise-intensive tasks such as:

- **Fraud detection:** AI-powered tools help small businesses protect against fake payments, account takeovers, and similar common threats. These tools analyze transactions and identify suspicious patterns — helping small businesses quickly **identify and address potential problems**.
- **Customer Service:** A range of effective AI chatbots can help small businesses **provide quick, accurate answers** to common customer queries — capturing the businesses' communication style and integrating with sales and marketing platforms.
- **Optimizing Supply and Purchasing:** AI-powered tools can help small businesses manage inventory by tracking stock levels and offering data-based needs predictions. AI-powered analyses can also help small businesses better **understand trends and buying patterns, helping forecast demand**.
- **Advertising and marketing:** Integrated tools like Google's Performance Max use AI to strategically post ads across channels such as YouTube and Search — helping small businesses **reach likely customers** and maximize returns on their advertising investment.

AI is the best thing ever to happen to small businesses, because it puts so many tools at their fingertips.

— Komal Singh, FOUNDER, 4XDIGITAL AI

AI empowers us to grow and compete head-to-head with big national chains. It's more than a new technology. It's a game-changer.

— **Tari Cash**, FOUNDER AND CEO, CITYSWING

The Challenge: A Growing AI-Policy Patchwork

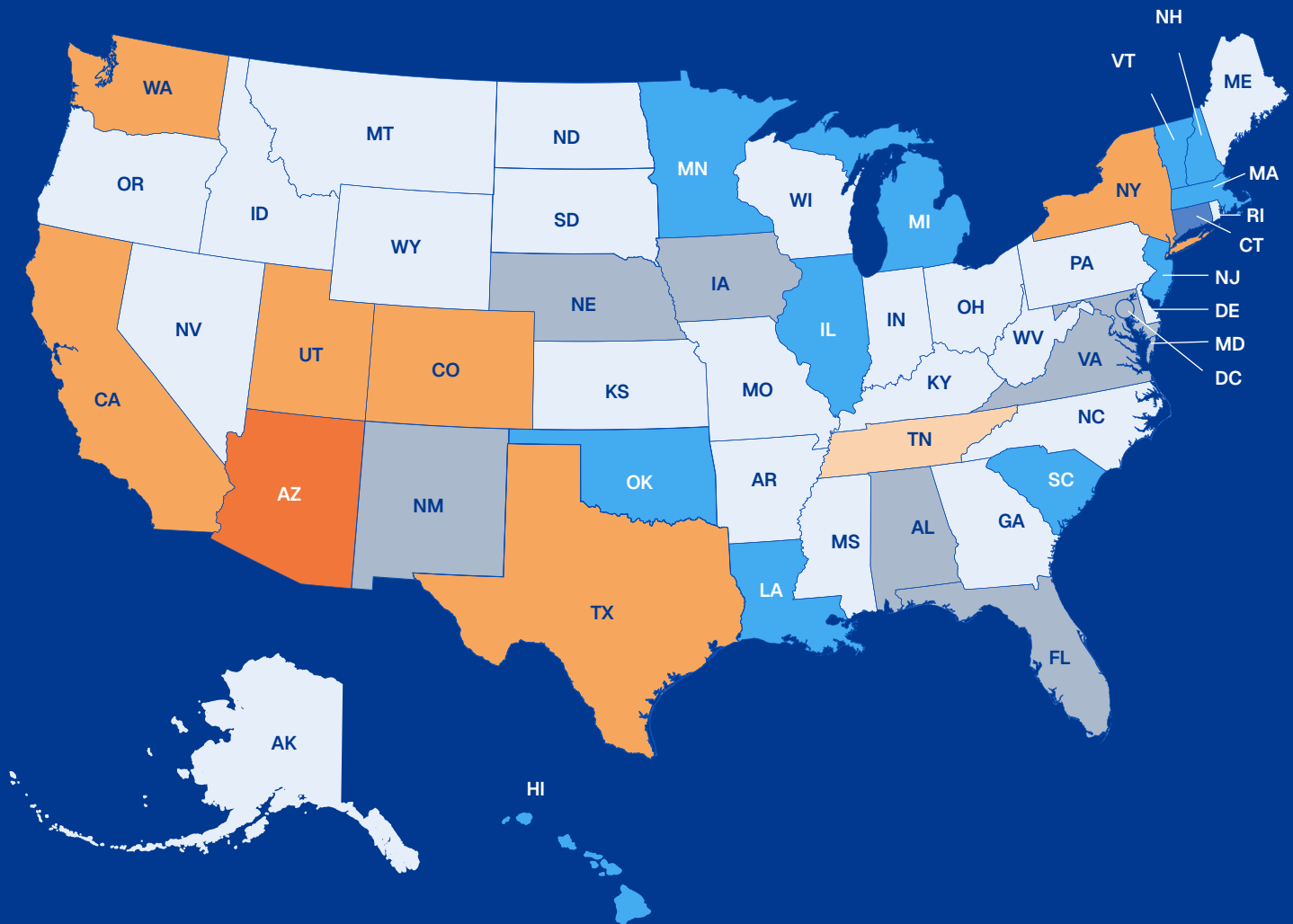
The U.S. is on its way to developing a complex, inconsistent patchwork of state-level AI regulations — potentially jeopardizing small businesses' adoption of AI-powered tools and slowing the development of innovative new AI-powered tools and services. **Fully 50%** of small-business leaders say they're concerned about using AI tools because of regulatory uncertainty.

In 2025 alone, U.S. states and municipalities introduced **over 1000** artificial intelligence bills. All 50 states **considered** some form of AI legislation, and 38 states adopted nearly 100 different AI laws covering uses ranging from healthcare to deepfakes. These state AI laws are well-intentioned. The problem is, they differ significantly — offering a variety of definitions, compliance requirements, and enforcement standards.

A patchwork of state laws will affect small-businesses' AI adoption in three ways:

- Small businesses won't be able to manage the costs and complexities of different states' AI compliance requirements — making AI-tool implementation too costly and risky for them.
- Innovative AI-tool startups may not be able to manage multi-state compliance costs and complexities — slowing the pace of AI-powered business-tool development.
- AI tool providers will likely pass along compliance costs to small businesses, making AI-powered tools less accessible.

US State AI Governance Legislation Tracker 2026



Statute / bill in legislative process

Introduced	In cross committee	Inactive bills
In committee	Passed	No cross-sectoral bills introduced
In cross chamber	Signed	Last updated 28 Apr. 2026

THE CHALLENGE

Meeting the Challenge: Balanced, Comprehensive Federal AI Policy

Small businesses need a smart, comprehensive national AI policy framework that balances safety with affordability and innovation — allowing small businesses to grow, compete, and succeed using AI-powered tools. The following five principles are key:

1. Consistency

Small businesses increasingly operate across state lines, whether by selling, advertising, or serving customers online. Comprehensive federal AI policy that supersedes state laws would eliminate today's problematic patchwork of different state laws — ensuring small businesses' access to AI-powered tools that help them grow and succeed.

2. Clarity

Effective AI regulations should use plain language, clearly define responsibilities, focus on outcomes rather than processes, and distinguish between high-risk AI systems and everyday AI-powered business tools. Small businesses don't have legal teams or IT departments to help interpret complex regulatory requirements, so AI regulations should be understandable to non-technical users.

High-risk AI should be defined narrowly and tied to recognizable, high-stakes decisions that can significantly affect an individual's access to employment, credit, housing, healthcare, education, insurance, or essential government services. Rules designed for those use cases should not sweep in routine productivity and business tools that small businesses use for everyday operations, such as accounting, inventory management, scheduling, marketing, customer service, fraud prevention, bookkeeping, document drafting, or internal analytics.

Regulations must also be written with precision. Vague obligations and broad classifications can unintentionally capture routine business tasks and uses. When rules are unclear, small businesses may hesitate to adopt AI-powered tools out of concern that they could unknowingly violate the law.

3. Small-business Protections

Compliance measures intended for AI developers and deployers should include protections against downstream cost increases and legal risks for small business users.

Regulatory compliance costs are often passed along through higher prices, reduced functionality, or fewer service options. For small businesses operating on thin margins, even small cost increases can make tools inaccessible.

Federal policy should also protect small businesses that use commercially available AI-powered tools in good faith and in the ordinary course of business. Small-business end users should not face legal exposure merely because they used an AI-powered tool as intended, particularly when they did not build the tool, train the model, control its underlying design, or materially alter its safeguards.

THE CHALLENGE

At the same time, AI policy should remain fault-based and role-specific. Each actor in the AI value chain should be responsible for its own conduct, decisions, and misuse. This approach protects good-faith small-business users without automatically shifting liability to AI developers or deployers.

Policymakers should aim to prevent small businesses from bearing the costs and legal risks of compliance requirements intended for large tech platforms or sophisticated AI developers.

4. Emphasis on Access

AI regulations should protect access to AI-powered tools and support continued innovation and affordability for entrepreneurs.

Small businesses benefit from a competitive, dynamic AI ecosystem where providers can develop and deploy tools that improve productivity and reduce costs. Overly restrictive or harmful policy risks slowing innovation, limiting choice, and raising prices.

A balanced approach should encourage responsible innovation while ensuring that small businesses continue to benefit from improvements in AI-powered tools. Lawmakers should avoid policies that discourage investment or delay the rollout of new features that help small businesses stay competitive.

5. Focus on AI Training and Readiness

As AI increasingly becomes embedded in everyday business software, the U.S. must invest in AI literacy and workforce development to ensure small businesses can confidently and responsibly use AI-powered tools.

More than half of small-business leaders say they want their employees to use AI to be more efficient at work; unsurprisingly, **more than half** also say they're looking for AI proficiency among potential hires. At the same time, **43%** of small business leaders say they haven't adopted AI tools because they're unsure which ones to use, and **over a third** say they haven't adopted the tools because they lack access to AI training.

Practical training, clear guidance, and hands-on support can give small business owners and employees the confidence they need to adopt and use AI tools. These efforts should focus on supporting small-business leaders who have already incorporated AI-powered tools into their operations, as well as on preparing the future workforce.

Federal policy should encourage public-private partnerships to deliver accessible AI education for small businesses. Short-form training and certification programs designed for non-technical users can help ensure that AI tools are used safely, productively, and responsibly.

AI for Mom 'n Pop

Lawmakers can promote adoption and responsible use of AI-powered tools through targeted, practical legislation like the **AI for Main Street Act**. Rather than imposing new restrictions on AI tools, the bill directs the Small Business Administration (SBA) to provide training, guidance, and resources to help small businesses responsibly implement AI technologies. The bill particularly seeks to help local businesses boost competitiveness by integrating AI tools into areas like marketing, sales, and operations.

AI-powered tools have the potential to supercharge small businesses. How can we incentivize small-business leaders to start using the tools?

— **Jenna Ahern**, FOUNDER AND CEO, GUARDIAN OWL DIGITAL

Data Centers: Digital Infrastructure and AI Access

Small businesses use AI through ordinary business tools: cloud software, online payments, digital advertising, customer communications, inventory platforms, and e-commerce services. Those tools require computing capacity, reliable networks, and energy systems that allow information to be stored, processed, and moved securely. Data centers are one part of that infrastructure.

The Center for Data Innovation describes them as facilities that support services ranging from email and cloud storage to banking systems, government records, large-scale business operations, and AI workloads.

As policymakers consider concerns about energy use, grid reliability, water use, and local impacts, the small-business perspective must remain part of the discussion. Curtailing responsible data center development could have downstream consequences for the digital tools small businesses use every day. Balancing those concerns with practical solutions that are not broad restrictions or moratoriums is essential.

The **Information Technology & Innovation Foundation (ITIF)** has noted that data centers can help manage demand, avoid peak periods, bring additional power to projects, and use utility agreements designed to protect existing ratepayers.

For 3C, the takeaway is narrow but important: keeping AI-powered tools affordable and reliable for small businesses will require smart rules for AI, pragmatic solutions, dialogue with multiple stakeholders that include small businesses, and continued investment in the infrastructure that supports the digital economy.

AI hasn't just helped me improve my business. It has transformed me into a 'tech founder'.

— **Angel Rodriguez**, FOUNDER AND OWNER, ALLIANCE TRAINING & TESTING

What's at Stake for Small Businesses

Affordable AI-powered tools are increasingly essential to small businesses' success in today's digital economy.

Today's policy choices will determine whether these tools remain accessible, effective, and affordable. A fragmented, chaotic regulatory landscape risks increasing costs, limiting functionality, and slowing innovation in ways that disproportionately affect small businesses. Unlike large firms, small businesses have little flexibility to absorb higher prices or adapt to complex and inconsistent rules across jurisdictions.

When small businesses can adopt AI tools confidently and responsibly, they are better positioned to grow, compete, create jobs, serve their communities, and keep the U.S. economy strong.

I'm leveraging AI technologies not only to grow and improve existing businesses, but also to launch innovative, high-potential new ventures.

— Joel Roodman, CO-FOUNDER, LOGIC PRODUCTS

A Path Forward for Policymakers

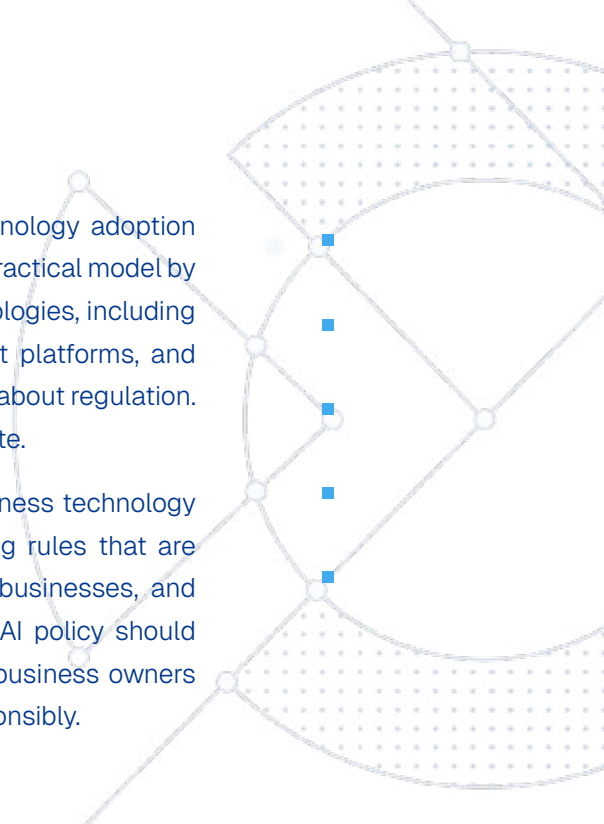
Policymakers have an opportunity to craft AI rules that address legitimate concerns, mitigate potential risks, and give small businesses access to tools that can supercharge their growth and success in the digital economy. Developing such regulations requires a clear understanding of how AI is used and where regulatory pressure is most likely to be felt.

Today's growing patchwork of state AI laws forces small businesses to navigate a broad range of inconsistent, often contradictory rules — making AI adoption complex and risky for small businesses. A national framework would give small businesses the regulatory consistency and clarity they need to confidently adopt AI-powered tools.

Federal Action Should Support Small Business AI Adoption

Congress has an important role to play in ensuring small businesses can use AI-powered tools confidently, affordably, and responsibly. That means setting clear national rules and helping entrepreneurs access the technology, training, and capital they need to put those tools to work.

Proposals such as the Great American Artificial Intelligence Act reflect the growing recognition that the U.S. needs a national AI framework. As lawmakers consider broader legislation, small businesses must remain part of the conversation. A strong federal framework should avoid treating everyday AI users like frontier AI developers, reduce the risk of fragmented state rules, and help keep AI-powered tools accessible and affordable.



Congress can also support small businesses through targeted technology adoption policies. The Small Business Technological Advancement Act offers a practical model by clarifying that SBA 7(a) loans can be used for modern business technologies, including software, cloud services, cybersecurity tools, inventory management platforms, and emerging AI applications. For small businesses, AI readiness is not just about regulation. It is also about access to the tools and resources they need to compete.

As lawmakers consider AI regulations and complementary small business technology policies, it's critical that they strive for clarity and balance, providing rules that are understandable to non-specialists, keeping AI accessible to small businesses, and protecting small businesses from downstream costs. Finally, smart AI policy should provide practical, hands-on training and education that helps small-business owners and employees leverage AI-powered tools safely, effectively, and responsibly.

Conclusion

AI-powered tools have the potential to revolutionize America's small businesses — helping them grow, compete, and succeed with unprecedented efficiency, and empowering them to far better serve their customers and communities. A patchwork of state-by-state AI regulations will stifle that potential; a smart federal framework will help it flourish. **It's time for Congress to act.**

AI-powered tools help us uphold our commitment to 100% made-in-America quality, value, and service.

— **Andrea Ramker**, VP OF BUSINESS DEVELOPMENT, RADA CUTLERY

Glossary

Artificial Intelligence (AI): computer systems and tools capable of performing tasks that — until now — have required human intelligence. Such tasks include learning from data, solving problems, understanding language, and making decisions independently. By simulating cognitive functions associated with creativity and problem-solving, AI is able to efficiently assist with or automate complex tasks.

AI agent: a software program that acts as an intelligent digital assistant and is capable of autonomously achieving goals. AI agents can perceive context and environment, reason through problems, make decisions, and take actions on a user's behalf to complete multi-step tasks.

AI deployer: A company or individual that integrates an AI system into a product or service and makes it available to others. Deployers sit between AI developers and end users, and policy obligations placed on deployers often affect how tools reach small businesses. (Source: Colorado AI Act)

AI developer: a software professional or business that specializes in building, implementing, and maintaining applications that use artificial intelligence.

AI end user: An individual or business that leverages AI-powered tools for tasks such as for marketing, inventory management, or customer service. (Source: Computer Weekly)

AI literacy: The skills associated with the ability to comprehend the basic principles, concepts, and applications of AI, as well as the implications, limitations, and ethical considerations associated with [its] use. (Source: Digital Equity Act Amendment)

High-risk AI system: An AI system used to make or materially influence consequential decisions about an individual's access to employment, credit, housing, healthcare, education, insurance, or essential government services. The term should not include everyday productivity or business tools that support routine small-business operations, such as accounting, inventory management, scheduling, marketing, customer service, fraud prevention, bookkeeping, document drafting, or internal analytics, unless the tool is being used to make or materially influence one of those consequential decisions.



Regulatory patchwork: A fragmented, inconsistent, and often conflicting web of state-level AI laws and guidelines that hurts small businesses by creating significant compliance burdens — hindering innovation and increasing legal risks for organizations operating across state or national lines.

Small business: Defined by the Small Business Administration (SBA) as having 500 or fewer employees or attaining less than specific threshold of average annual receipts, nearly 80% of U.S. small businesses have fewer than 10 employees.

Large language model (LLM): a type of AI trained on vast datasets, typically containing billions or trillions of parameters. Designed to understand, process, and generate human-like text, LLMs are probabilistic, meaning they use training data to generate contextually relevant, human-like responses when prompted. LLMs have raised copyright concerns centering on whether training models on copyrighted material constitutes infringement; the copyrightability of AI-generated outputs; and potential liability for output that mimics a human author's style.

Machine learning: a type of artificial intelligence (AI) that allows computers to learn from data and improve at tasks. Rather than following strict, pre-written rules, machine learning systems identify patterns in data to make predictions, recommendations, or decisions.

Open-source AI: an AI system that provides public access to model weights and architecture, allowing for customization, local hosting, and community collaboration.

Closed-source AI: A proprietary AI system that keeps model architecture and data confidential, offering it as a service via application programming interface or chat.

