

Small Business

What can I do to prepare my small business for the generation to come?

The process of passing a family business onto the second generation is so difficult that not even a third of them survive. Beyond that, roughly half make it to a third generation. In a normal day in the U.S., 40 percent of businesses are confronted with a change of owners. Those who have founded the companies are struggling to find remedies, but there aren't many options.

Here are a few possible remedies to this problem:

- Sell off the company.
- End the business.
- Remain as the owner, but contract others to manage.
- Keep ownership and management within the family.

The most common causes for failure of the transition of the small business are as follows:

- There is no strategy.
- The business is missing energy.
- The owner lacks the motivation to change the business.
- The coming generations are not interested in working with the business.

The main reason for closure is not having a strategy. If planned properly, the business has no reason to worry.

How do I create a successful strategy for passing on my family business?

The family must do the following to attempt to have a worthwhile transition:

- Formulate a strategy focused on the family.
- Formulate a strategy focused on the business.
- Make a Succession Plan, which includes setting dates for retirement and the training for who will follow.
- Make an Estate Plan.

These are the four key points to a successful business transfer. They basically guarantee a transition for years to come within your family when implemented correctly.

What is a strategy focused on the family?

The purpose of the family strategy is to keep a well-functioning business. The policies for the role of the family in relation to the company are set in this strategy. There may be policies for entering and exiting the workforce of the business. It should incorporate the basic guidelines as well as a mission statement that explains what is important to the family. The strategy needs to take into consideration who in the family would like to have significant roles in the business and who would like less responsibility.

What is a strategy focused on the business?

A strategy focused on the business permits each new member of the family to establish their own future for the company. To make sure that everyone has the same idea as to where the business is headed, there is a need to formulate goals. The strategy should concentrate on the future of the company at a particular date.

What is involved in a Succession Plan?

The purpose of the succession plan is to aid those who founded or are in control of the company through the transition. It should explain the details of how to know when the next generation is ready to take over and the process for that transition.

What is contained in an Estate Plan?

The plan for the estate is vital for the company and family. In the end, without a strategy, there will be higher estate taxes than needed, which in turns gives less to the successors. This plan should be in accordance with the succession plan to ensure the transition of the business is done in the most tax effective way.

Do I have what it takes to own and manage my own business?

First, think about why you want to start your own business and make a list. The thrill of being self-employed, the need for independence both financially and professionally, and the desire to use the most of your intelligence and talents are a few of the most frequent motivations.

You also need to make sure you have the desire to put in the time to make a successful business. To decide what type of business fits you the best, you should think about what you find enjoyment in doing

and what talents you have. Ask others for their thoughts, and see if any of your everyday activities can be made profitable.

At this point, you will need to investigate what will be the exact niche for your company. Determine what it is you want to put on the market, what the competition is like, and how to get ahead of the competition. The most important consideration is the demand for your product or service.

What should the business strategy contain?

A business strategy, when applied to your company, should include an introduction, details about marketing, financial management, operations of the company, and a closing statement.

In the introduction of the business strategy, what should I incorporate?

This segment of the business strategy should contain information about the company and its objectives. Detail the experience within your company and the structure of management and legal status. State what your business has to get ahead of the competition.

In the marketing portion of the business strategy, what should I incorporate?

This is where you should state the products or services being offered and their demand in the market. It should also detail the market and its particular location and size.

In the financial management segment of the business strategy, what should I incorporate?

You should outline the source and amount of the initial equity capital. You also should create a monthly operating budget for the beginning years, as well as expected return on investment (or ROI) and monthly cash flow for these years. After that, present the balance sheets and income statements for the first 2 years and state the break-even point. Discuss your own balance sheet and ways of compensation. Explain who will be in charge of accounting affairs and how they will be maintained. Lastly, think through the possible problems that may arise and develop solutions.

In the operations segment of the business strategy, what should I incorporate?

This is where the explanation of the management of the daily activities will be. It should include insurance coverage, lease or rent agreements and the processes related to the staff and employment. It

should also detail what is necessary to produce the products/services and the processes of production and delivery.

In the closing statement of the business strategy, what should I incorporate?

You should restate the company's objectives and purposes and explain the dedication you have to make your company succeed. Be sure to include the methods you plan to use to reach your objectives.

How do I know if a business based at home is good for me?

You have to base your decision to start your own business on something other than the desire to be your own boss, such as: knowing beforehand what it is going to take, a thorough evaluation of your personality, and willingness to go the extra mile.

You must be able to make plans and continually make the necessary changes and developments as you go. You will want to set up an environment that is devoted to the professional aspects of your life and even consider a separate office within your home.

Are there certain legal standards that will affect my home based business?

A home based business is affected by many of the same laws that apply to normal companies. You need to speak with a lawyer and the state department of labor to learn which of these laws and regulations will come into play. You will need to know your city's zoning regulations as well as knowing which products may not be produced from home.

Explosives, fireworks, toys, drugs, sanitary or medical products, and poisons are normally outlawed for production based at home. Other states will not allow the production of drink, food or clothing from home.

You may be required to obtain a business bank account, a separate business telephone, a work certificate or license from the state, and a sales tax number for registration and accounting standards.

If you have employees, you will be held responsible for social security taxes and withholding their income as well as observing the employee health and safety laws and minimum wage.

How can I prevent cash flow problems from hindering my small business?

One of the main reasons small businesses collapse is they have a poor cash flow strategy. The most common reason for this is that many small business owners do not have a grasp on basic accounting principles. You should learn the basics to maximize your cash flow.

You can either keep cash on hand or in a business bank account in order to take care of the expenses. This will be enough to allow the company to pay bills, to supply investment capital and to have sufficient funds in case of emergencies.

An operating cycle begins with the buying of inventory, and ends with receiving the payment for the inventory. It keeps track of the transition of assets to cash. Normally, you purchase an excess of inventory so as not to exhaust your stock as soon as sales are made. Accounts receivable and cash sales will make up your sales. The normal payment date for accounts receivable is 30 days from the purchase date, which is applicable to both your inventory and products sold. Cash and accounts payable are lessened with an inventory payment is made. The collection of receivables will raise your cash. At this point, the operating cycle and the cash has made a full circle and will start again.

An analysis of the cash flow will demonstrate if the everyday operations produce sufficient cash to reach the obligation and the relation between large expenditures to pay for obligations and large inflows of cash from sales. With this information, it will be apparent if the inflows and outflows of your business have a positive cash flow or a net loss. Over time, important changes will be seen.

A projection of the monthly cash flow will uncover and eliminate any deficiencies or surpluses in the cash flow and show the relations between previous projections and actual figures. A business financial strategy should be changed to allow for more cash when cash deficiencies are discovered. If a surplus of cash is found, it may be due to excessive borrowing or money that should be invested. The purpose is to construct a strategy to allow a well-balanced cash flow.

What can I do to develop a better business cash flow?

There are several options for increasing cash reserves:

- **Accounts receivables:** Properly control your accounts receivables and retrieve overdue accounts as quickly as possible. If you are not aggressive with collection, profits are lost.
- **Having stricter credit standards:** With the tightening of credit and terms, more clients are paying for their purchases in cash, which leads to more cash on hand and lowering the bad-debt expense. Although this is beneficial in the short term, it may not be as appealing in the long term. Less strict credit policies permit more clients to purchase the products or services.
- **Take advantage of the market:** A common problem is many small business price their products lower than the market and do not make a profit. You should research the product's market, distribution costs and the competition before deciding on prices. Constantly keep an eye on the aspects that play a role on pricing and make adjustment when necessary.

- Make use of short-term loans: Taking a loan from a financial institution can solve short-term cash flow problems. The common forms of credit used in these circumstances are revolving credit lines and equity loans.
- Boost sales: One way to increase the cash flow is to boost sales. Take into account, when a large amount of your sales are credit sales, sales are boosted (as well as accounts receivable), but not cash on hand. This causes your inventory to diminish. Due to receivables not being collected until 30 days after the sale, a significant increase in credit sales will diminish the company's cash reserves fast.

Is a cash reserve necessary in my small business?

It is important to have sufficient cash on hand to pay for expenses and emergencies. Cash beyond this should be put in a manageable, low-risk, interest bearing account, like a savings account, Treasury bill or short-term certificate of deposit.

Choosing a Professional

Should I hire an attorney?

It is necessary to hire an attorney for some disputes that require a lot of time. Having an attorney makes you more prepared, but you may also hire one for a significant business transaction. If there is a problem where the court is concerned, it is advisable to hire an attorney.

The following should be considered when determining if an attorney is necessary:

- Is this a difficult legal dispute or will I end up in court? What is involved in terms of money, property, or time? Positive answers demonstrate the need for an attorney.
- Does a book exist that will be able to help me so I don't have to hire an attorney? Some problems can be resolved with little help.
- Have you looked for non-Lawyer legal resources to help?

Certain disputes can be solved without needing an attorney. For example, a living will can be prepared by a non-legal organization such as the American Association of Retired Persons. There are several organizations that can aid in the process of obtaining a living will form from the state along with information for filling it out.

What process do I follow to handle the dispute by myself?

The use of letters and negotiation solves many disputes without the need of an attorney. Arbitration or mediation may also be used. There are legal self-help manuals and conferences that can aid in resolving disputes.

Idea: Instead of hiring an attorney to fully represent you, only use them for paper review or advice.

Negotiation without a lawyer: This can resolve many small disputes. Many books cover the process of negotiation.

Idea: Make sure to learn about the legal issues that could be brought up before the negotiation by speaking with a legal hot line or consulting resource.

Mediation or arbitration: You can find dispute resolution centers in almost every state. The areas that they commonly focus on are complaints from consumers, rental property disputes, and arguments between neighbors or members of a family.

Mediation consists of a third party who helps the two parties talk about the problems and hopefully reach an agreement. Arbitration is a more formal process where a third party reaches a conclusion after hearing both sides.

These are the low cost options in comparison to going to court or hiring a lawyer for representation.

Small claims court: Each state defines the limits for the amount of damages, which can be filed in small claims court. These are less formal and require less paperwork than normal courts. You must be prepared to function as your own lawyer in small claims court, which involves compiling evidence, investigating the law and making your story known in court.

What method should I use to find a good attorney?

Speak with friends, relatives, clergymen, social workers or your doctor for their opinions. You can also use the referral lists that are compiled by the Bar Association.

Pay close attention to the specialty area in the Bar Association lists, as many attorneys work in different areas. A lawyer that is a part of one of the organizations may have just what you are looking for.

More sources are the Who's Who in America Law and the Martindale Hubbell Law Directory. Make use of referral services for particular groups (for example, people with disabilities, elders or victims of domestic violence).

If using the referral service, ask for details on how the lawyers were selected. Many referral services use lawyers who are members of a certain organization.

The court and your bank can be great referral sources as well as the yellow pages. After the list is compiled, spend time with each of them and slowly eliminate attorneys.

What should I ask my possible lawyers?

Before beginning a consultation, the following questions should be asked:

- Is the first consultation free?
- How long have you been an attorney?
- Do you have a lot of cases that are like mine? (Try to find an attorney that has experience in your problem area.)
- Are there references, such as trust officers in banks or other attorneys that I can contact?
- Are there any clients or special-interest groups that you work for that may cause a conflict of interest?
- Can we make a fee agreement? May we discuss the fees?
- Is there anything in particular that I should bring to the first consultation?

Make sure to consult with at least two of the attorneys from your list. There is no need to be embarrassed about choosing the best attorney or changing appointments with an attorney after all investigation is complete.

It is now time to interview the possible attorneys. Make sure to have a brief summary of the case at hand as well as general questions to ask the attorney. There are two objectives for meeting with the attorney: 1) to see if the attorney has the talent needed to represent you, and 2) to see if you are comfortable with attorney and the fee agreement.

Is a certain fee agreement better for me?

The basic rate for legal services depends on location. Based on your knowledge of the fees, a "fair" fee should be selected. Here are a few factors that play a role in the decision:

- What can you afford?
- Is this a routine case or do I need someone with special experience?
- What is the going rate for the attorneys in my area?
- What can I take care of without the attorney?

The following are basic fee agreements in use by attorneys:

Flat fee: There is a specific total that will be charged for work on your case.

- Idea: Make sure to ask if copies, transcribing and other expenses are included in this rate.
- This is normally offered only if the case is simple or routine.
- Note: Litigation is not usually a flat fee, but an attorney can give you a fair estimate beforehand.

Hourly rate: A rate will be charged for each hour or part of the hour that the attorney works on your case. For example, if the attorney's fee is \$50 per hour and puts in five hours of work, then the cost will be \$250. Some rates may vary depending on whether they are hours spent in court or doing investigation and preparation.

- Idea: If you decide on an hourly rate, find out how much expertise the attorney has in your particular problem area. Someone who is less experienced will need more hours to complete the work, even though the hourly rate is lower.
- The size of the firm also affects the price. Smaller firms and urban lawyers usually charge a higher hourly rate than lawyers in rural areas and large law firms charge the most.
- Idea: Find out what is included in the hourly rate. Will you be charged for other staff members time put into the case and if so, how? Are there any other expenses that I will be billed for besides the hourly rate?

Contingency fee: The final amount owed is based on the amount awarded in the case. In this scenery, if you lose the case, the lawyer does not receive anything besides expenses. This is normally one-third of the total.

- Idea: Find out if the fee will be calculated before or after expenses are taken into account. This can make a significant difference in the amount of the fee.

What can I do to save money on legal fees?

Bear in mind that attorney fees are usually negotiable even though you will not be asked to bargain over the fees. The following are a few tips to make sure you save the most money possible:

- Shop around for flat fees on routine cases.
- Discuss the method of billing for hourly rates. To avoid problems, have a written agreement stating the fee agreement as well as what is involved.
- Find an attorney with the qualifications necessary for your case. The majority of legal work is fairly routine. Knowing what form needs to be completed and then who to file that with plays a large role.
- Propose to help with the workload.
- Use the lawyer as the middleman. If you only need a letter written to the opposing party, some attorneys will negotiate a lower fee.
- Work the lawyer as your coach. Hire a lawyer to guide you and review documents and letters that you prepared and signed if you would like to represent yourself in court (pro se).
- Select an attorney that specializes in your particular case.
- Always arrive prepared to lawyer meetings. The more information you have at hand means that less time that the lawyer needs to spend looking for that information.
- Be forthcoming with your attorney. To save time and money, make sure the attorney knows all the pertinent facts as soon as possible to reduce the need for more investigation.

- If factors change, inform your lawyer immediately. This can possibly save the lawyer's time or keep the lawyer from working on the case in the wrong direction.
- Be prepared when having contact with your lawyer. Ask all questions in one call. When you receive a letter or information in writing, pass it on to other staff members instead of contacting the attorney, unless you have a specific need.
- Pay close attention to invoices. Ask that you receive an invoice regularly. This applies to all types of fee agreements including a contingency fee. If you have a question regarding any of the items, you should immediately speak with your attorney.

Employee Benefits

Do I need to know anything specific about employee benefits as a small employer?

The employer must pay for certain legal benefits and insurance coverage such as Social Security, unemployment insurance and worker's compensation. The money for the Social Security program comes from payments made by employers, employees and self-employed persons to an insurance fund that will provide income after retirement. At the age of 65, full retirement benefits usually become available. There are other aspects of Social Security that deal with survivor, dependent, and disability benefits, Medicaid, Supplemental Security Income and Medicare.

Benefits for unemployment insurance are to be paid under the laws of individual states from the Federal-State Unemployment Compensation Program. Contributions to the program include payments made by the employer, based on the total payroll. The purpose of worker's compensation is to provide benefits to workers who are disabled due to an illness or injury while at work. The coverage and benefits vary by state. In the majority of states, private insurance or employer self-insurance will provide the coverage necessary. Short-term disability benefits are governed by the state also.

Health insurance, disability insurance, life insurance, a retirement plan, flexible compensation, and leave are often included in a comprehensive benefit plan. An employer may choose to offer such benefits as bonuses, reimbursement of employee educational expenses, service awards, and perquisites appropriate to employee responsibility.

You need to determine what you are willing to pay for this coverage before implementing a benefit plan. It might be a good idea to consult employees as to what benefits they are seeking. For example, is a retirement plan more important than a medical plan? Another decision is whether you will protect your employees from current economic hardships or in the future. The last step is deciding who will manage the plan, you or an insurance broker.

Are there different types of medical plans for employees?

There are two options: a fee-for-service plan, or a pre-paid plan (commonly referred to as a Health Maintenance Organization, or HMO).

An indemnity plan or insurance permits each employee to decide their own doctor. The employee will pay for the medical care and then file a claim with the insurance company for reimbursement. There are deductibles and coinsurance as well. Deductibles vary from \$100 to \$1000 a year.

With coinsurance, a percentage of the medical expenses are paid by the employee and the remaining are covered by the plan. 20 percent is the normal coinsurance amount to be paid by the employee - the remaining 80 percent is paid by the plan.

There are three common indemnity plans that give health care to groups of employees: 1) a basic health insurance plan that will cover hospitalization and surgery as well as physician's care in the hospital; 2) an insurance plan that will supplement the basic plan by reimbursing the charges not paid by that plan; and 3) a comprehensive plan that (with one common deductible and coinsurance features) will cover both hospital and medical care.

What is a preferred provider organization (PPO)?

A network of doctors and/or hospitals that has contracts with a particular health insurer or employer that will give health care to employees at lower than the market rate. This offers a broad range of health care providers.

PPOs can be more expensive than HMOs due to the broader range of providers. There are no obligations to use the PPO providers, but there are strong financial incentives. PPOs often have less comprehensive benefits when compared to HMOs. The PPO providers normally receive payment from the insurers directly.

What is a health maintenance organization (HMO)?

Health care that is provided through a network of hospitals and doctors is a health maintenance organization (HMO). The benefits usually include preventative care, such as physical examinations, weight control and stop-smoking programs, baby care and immunizations. The most common characteristic of HMOs is that the primary care provider is limited to only one doctor within a network, although there is usually a variety to choose from.

Outside of the network of hospitals and doctors of the HMO, there is no coverage. Due to the limited choices, the costs are lower. The payment for the HMO premiums are fixed and per employee. A small co-pay is due for the medical services, and no reimbursement is necessary.

What are the typical disability benefits provided to employees?

If an employee cannot work due to illness or accident, the disability plan gives him/her income replacement. These defer from worker's compensation as they pay benefits for non-work related illness and injury, and can be either short-term or long-term.

Short-term disability (STD) is used if the employee is unable to perform the normal duties of his/her occupation. The benefits are typically paid for a maximum of 26 weeks and begin on either the first or the eighth day of disability. The benefit level is dependent upon the employee's salary and will range from 60 to 80 percent.

Long-term disability (LTD) commences after the conclusion of the short-term benefits. LTD benefits then continue for the entire length of the disability or until the date of normal retirement. This is also a percentage of the employee's salary, typically between 60 and 80 percent. Social Security disability normally offsets these benefits - if an employee qualifies for the Social Security disability benefits, they will be subtracted from what the employer has paid.

Employees have what kinds of life insurance plans available to them?

The beneficiaries of an employee may collect death benefits from life insurance if the employee dies during their working years. The two main kind of life insurance are:

- Survivor income plans that provide regular payments to survivors
- Group life insurance plans that will provide lump-sum payments to beneficiaries
- The most popular plan has group term life insurance, protection provided by one-year, renewable, with no cash surrender value or paid-up insurance benefits.

What do I need to know about self-insurance?

Self-insurance means the business will pre-determine and pay a portion or all of the expenses of employees in ways similar to traditional health care providers. The funding comes from a trust or reserve account.

A portion of the cost may be paid through premiums, as is common in health care plans. A kind of coinsurance purchased by the company is called catastrophic coverage given through a "stop loss" policy. The company can manage this directly or it can be done through a contractor.

Do I need a "cafeteria plan"?

With a "cafeteria plan", money which would normally be used as taxable salary is used, normally tax-free, for services that are necessary like health or child care. This saves the employee income and Social Security taxes. In addition, the salary used in the cafeteria plan isn't subject to Social Security tax on the employer. The employee has the choice from several levels of supplemental coverage or different benefits packages. Each employee may select what he/she wants based on their own personal goals or to satisfy differing needs, such as health coverage, legal services (legal services amounts are taxable), retirement income (401(k) plans) or specialized services (dependent care, adoption assistance).

Record Keeping

For my business, what types of records are important to keep?

A crucial aspect of your business success depends on thorough and accurate financial record keeping. Accurate records help to provide information to operate efficiently as well as allow you to identify all your business assets, liabilities, income and expenses. This data will help you locate both strong and weak cycles of your business.

It is necessary to keep good records to prepare current financial statements like income statements and cash flow projections. They will also help you maintain a good relationship with your banker. The records will even ensure you don't overpay or underpay your taxes. During an Internal Revenue Service audit, it is crucial to have good records in order to properly answer the questions and satisfy the IRS.

Financial records should demonstrate how much income you are currently making as well as what you expect to generate in the future. They will indicate the number of accounts and their balances in accounts receivable. They will also inform you of what you owe in terms of utilities, rent, merchandise, and equipment, and even expenses such as advertising, payroll, payroll taxes, equipment and facilities maintenance, and benefit plans for yourself and employees. Good records will show how much cash is being used for inventory and how much is on hand. They should also indicate which of your products are making a profit as well as your gross and net profit.

The Basic Record Keeping System

This should include a basic journal to record transactions, payroll records, accounts payable records, accounts receivable records, inventory records and petty cash records.

With the help of an accountant, you can develop an entire system that fits your business needs. They can teach you how to update these records regularly. The records will become the base for your financial statements and tax returns.

What should I know about automating a portion or all of my business?

First, you need to have a clear understanding of your company's short and long-term goals. Consider the disadvantages and advantages to a computer, as well as what you want to achieve with a computer. Look at the best non-computerized system that you can develop in comparison to the computer system you are considering. It is possible to achieve your goals by improving your existing manual system. Just remember, no one can automate a business without first creating and optimizing the manual systems.

Computer Performed Business Applications

Maintaining transaction records and preparing statements and reports to keeping customer and lead lists, creating brochures, and paying your staff are a few of the capabilities that can be done by a computer. A thorough computer system can organize and store many similarly structured pieces of information, print information quickly and accurately, perform complicated mathematical computations quickly and accurately, facilitate communications among individuals, departments and branches, and connect the office to many sources of data available through larger networks. It can also restructure such manual business operations as payroll, accounts receivable, inventory, advertising, and planning. A computer can improve efficiency, decrease errors, and lower costs.

Computer Business Applications

Computers also have the ability to do more complicated operations, such as spreadsheet and accounting programs that compile statistics, plot trends and markets and complete a market analysis, modeling, graphs and forms and financial modeling programs that organize and analyze financial statements. Several word processing programs produce typed documents and provide text-editing functions, while desktop publishing programs allow you to create good quality print materials on your computer. To divide large projects into smaller, more easily managed segments or steps you can use the critical path analysis programs.

How can I guarantee that the computer system I'm using is right for me?

Selecting the right programs, choosing the right equipment and implementing the diverse applications are factors to consider when you computerize your business. There are three common types of software. Compilers and interpreters translate programs that are written in human-readable programming language to the computer language that the CPU understands. The operating system software controls the individual components of the computer. The computer generally comes with system software which must be loaded into memory before the application can start.

Software for specialized functions such as accounts receivable, payroll check writing, posting or inventory reporting are usually purchased separately from the computer hardware.

In order to determine your needs, make a list of all the functions of your company where speed and accuracy are important for mass amounts of data. These are referred to as applications.

Prepare a list of all the reports that you are currently producing for each of these applications. Make sure to include any preprinted forms such as vouchers, checks or billing statements. If these forms don't already exist, come up with a good idea of what you want. List the frequency with which each report is to be generated, who will make it and the number of copies necessary.

Prepare a hand-drawn version that also lists the circumstances in which you would like the data shown. Write a list of all the materials that are used as input into your manual system for each application. These may include, but are not limited to, work orders, receipts, time cards, etc. Detail who will create them, how they will get into the system and the time in which the items take to be created. For the appropriate time period, make a maximum and average expected number of these items produced.

What can I do to successfully implement the new computer system?

You will come across problems when implementing computer applications, but correct planning can make the process smoother. Sit down with each employee and explain how the computer will have an effect on his or her position. Set dates to have the main phases of the implementation complete as well as the last day for format changes. Find a location for your computer that meets the system's requirements for temperature, electrical power and humidity. Make a list of the priorities for the applications that will be converted from manual to computer systems and convert each one individually instead of in a group. Ensure that everyone using the system will be trained.

Each application that has been converted should be entered and run alongside the pre-existing manual system to ensure that the new system works.

System Security

If you plan on having confidential information in the system, you will need to set up the proper precautions to keep unauthorized users from modifying, stealing or destroying data. The options are locking the equipment or installing a user identification and password software program.

Data Safety

The most moderately priced and best insurance to prevent the loss of data is the back-up of information on a diskette on a regular basis. These copies should be put in a safe location away from the business

site. It is also helpful to own and test a disaster recovery plan and to identify all programs, documents and data necessary for essential tasks during disaster recovery.

Lastly, make sure that you have more than a single person capable of operating the system and be sure that someone monitors all systems continuously.

Travel and Entertainment

May I deduct meal expenses when visiting clients out of the office?

That is not common. Normally, you can only deduct the cost of a meal when away on a business-related trip or gone overnight.

Only 50% of the cost of the meal including the tip is allowed in the deduction.

Do I need to report employer reimbursements for travel, entertainment and meals?

If you give back any excess reimbursement, provide your employer with a detailed expense report and meet other requirements. There is no need to report the reimbursement or to deduct the expenses.

Deduction limits are obligatory for your boss, not you, and the limit of 2% on miscellaneous item deductions will not have an effect on your entertainment, travel and meal costs.

Are there limits on deductible entertainment, travel and meal costs?

Although there is no specific dollar limit, expenses should be ordinary and necessary and not over-generous.

The deduction cannot exceed 50% of the cost of business entertainment and meals.

For skyboxes and luxury water travel, there are other specific limitations.

May I deduct living expenses while away from home on temporary assignment?

Because temporary work site living expenses are separate from home travel expenses, they may be deducted.

An assignment that is not expected to last more than a year is considered temporary. If the assignment is for more than one year then the new area becomes your tax home and you can't deduct expenses as away-from-home travel.

Which expenses are deductible when I am traveling away from home?

There is a broad range of expenses that you can deduct while traveling. The most common are as follows:

- Accommodation and meals (where there is a 50% limit on meals)
- Transportation fees or actual costs at a per-mile rate for using your own vehicle. The transportation costs also include getting around in the work area, commuting to and from hotels, restaurants, offices, terminals, etc.
- Phone, fax, laundry, baggage handling
- Any tips related to the above

Are there travel expenses that cannot be deducted?

- The travel expenses below cannot be deducted:
- Travel as education
- Looking for a new job in a different field or for a new business site
- The cost of transportation between your home and the work site unless your home is your business headquarters.

Business entertainment - what can I deduct?

The conditions and limitations for business and entertainment deductions are the following:

- A business discussion should be held before, during or after the entertainment.
- Usually, the deduction is limited to 50% of the cost for entertainment and meals.
- In settings where spousal attendance is customary, expenses of spouses of business associates (and your own spouse) can be included in the deduction.
- There are more limitations for club dues, entertainment facilities and skyboxes.

How do I document my entertainment and travel expenses?

If your employer is reimbursing you for your expenses, you only need to prove them to him/her. To do this, submit a written accounting to the employer and return any excess amounts.

"Accountable plans" or per diem arrangements and mileage allowances are used instead of detailed accounting for the employer, if place, time, and business purpose are verified.

Detailed documentation is required by the IRS when expenses aren't fully reimbursed by the employer or you fail to return excess reimbursements. If you are the employee, a 2% floor on miscellaneous item deductions is applied to your deductions.

You should record the expenses as close to the time of expenditure as possible.

Marketing and Pricing

How can I be certain that my small business product or service will be marketable?

To determine where and how you can successfully sell your product or service (and at what price), you will need to use one of the most critical elements of business planning - market research. This includes interviewing potential suppliers and investigating your competition and consumer base.

Market research has many different benefits. It can help you categorize marketing activities, generate primary and alternative sales approaches to a given market, make profit projections from a more precise base, establish the market's profit boundaries, and develop critical short/mid-term sales goals. You will need to identify your objectives and organize the collection/analysis process first.

What questions are appropriate to ask in market research?

You will want to learn about the consumers' location, needs and resources, and what they can afford. Significant questions (can you compete effectively in price, delivery and quality? Where can the demand be created?) should be addressed.

Can the product or service be priced to guarantee a profit? Also, discover how many competitors provide the identical product or service. You will want to have a basic understanding of the economy of the area in which you will sell your product or service and the areas where that market is growing or lessening.

When setting prices for my products or services, what should I consider?

There are different individual costs for each component of your service or product. Be sure to analyze every component of the product or service's total cost. Upon completion of the analysis, prices can be established to maximize profits and eliminate deficit services. Material, labor and overhead costs are included in the cost components.

Material costs are the total of the costs of all materials of the finished product.

Labor costs are calculated based on the total work put into preparing the product. To determine the direct labor costs, you multiply the cost of labor per hour by the number of personnel hours necessary to finish the job. Be sure to include the dollar value of fringe benefits as well as the hourly wage, which include workers' compensation, retirement benefits, social security, insurance, unemployment compensation, etc.

Overhead costs cannot be easily identified with a product. They consist of indirect materials, such as depreciation, supplies, advertising, heat and light, taxes, rent, insurance, and transportation. Indirect labor costs, such as legal, clerical, and janitorial services are also included in overhead costs. Don't forget to include shipping, handling and/or storage and any other cost components.

Business Forms of Organization

Will some types of business organization or entity limit my liability to business creditors?

Yes. Limited liability companies (LLCs), limited partnerships, limited liability partnerships (LLPs) and corporations are the most common forms. General partnerships and sole proprietorships don't restrict owners' liability, whereas limited partnerships limit liability of some partners (such as limited partners) and not others (like general partners).

How can I avoid the "corporate double tax" and what exactly is it?

A "corporate double tax" happens when a business corporation (or an entity that is treated as a business corporation for tax purposes) pays a federal tax on its income, and then its owners pay another tax as they collect corporate profits. The "entity level tax" is the tax on the corporation and so an entity taxed in this way is called a "C corporation" or C corp.

Here are ways to avoid the double tax:

- Become an S corporation, which doesn't change the nature of the business under state business law but rather eliminates federal tax at the corporate level.
- The second tax, which is on the owners, can be deferred by suspending profit distributions to corporate owners.

For tax purposes, what type of business entity is best?

Each business is different, although to save on overall taxes a "passthrough" entity is generally best, as it eliminates tax at the entity level. Owners of passthrough entities are taxed on the profits of the entity

that they own. Owners are able to make tax deductions for startup and operating losses, against the income from other businesses or investments.

What entities are considered to be "passthrough"?

The leading "passthrough" forms are limited partnerships, LLCs, LLPs, S corps, sole proprietorships and general partnerships. You have a lot of power over whether or not your entity is treated as a passthrough for federal tax purposes.

If you have a partnership of any type or a limited liability company, it is possible to choose if your business functions as a corporation or partnership for tax purposes. This is called the "check-the-box" system by tax and business advisors. You can qualify to have it treated as a passthrough by choosing S corp. status if your entity is incorporated or if you elect to be treated as a corporation.

This decision is binding. This means if you select one entity one year and a different one the next, you will have to pay the taxes as though last year's entity was sold and use those profits towards this year.

To avoid double tax and limit my liability, which entity should I choose?

Assuming you don't select to have them function as corporations, the following types will avoid double tax and limit liability: LLPs, LLCs, and limited partnerships (only for the limited partners). An S Corporation is usually another option. If you are a sole owner, the only option is an S Corp (or in certain states, LLCs).

Why are limited liability companies (LLCs) so great?

Limited liability and passthrough tax treatment are both combined in LLCs. This provides benefits that are unavailable from S Corps. The main benefits are:

- The possibility of greater loss deductions.
- Tax benefits can be disproportionately distributed among owners.
- When a new owner becomes a member of the business, or when allocations are given to owners in business liquidation, taxes are avoided or reduced.

LLCs are sometimes permitted to have a single owner - laws vary by state. If permitted, the owner has the opportunity to elect to be under the check-the-box rules.

A good alternative where sole ownership LLCs aren't permitted is an S Corp. This structure will also defer tax, in comparison to LLCs, when a corporate giant is buying out the business.

If my business is a professional practice, what are the special conditions?

A major concern is the limitation of liability, especially malpractice liability. Against the liability of your own malpractice, there is no entity that will protect you. For protection against liability for malpractice of co-owner professionals in the firm and possibly for other debts, Professional Limited Liability Companies (PLLCs), LLCs, and LLPs, when accessible for professional practices, should be used. Depending on the state law, Professionals Corporations (PCs) might not offer protection from liability for a co-owner's malpractice.

LLPs, PLLCs, and LLCs all have about the same tax rules that govern them while those for PCs are a little more liberal.

If I change my form of business organization, what are the federal tax consequences?

A change of entity is an event that may need to be carefully planned and implemented to avoid a taxable event. It also may have significant future tax implications. You should consult with a professional before making any changes or decisions to your business organization.

Is it necessary for state business entity rules to follow federal tax rules?

Bear in mind the differences between state tax law and state business law. Whatever tax status you select for your entity beneath the federal check-the-box system, keep in mind that you may be considered a different type of entity for state business law purposes. This means that if you choose corporate tax treatment for a partnership, it will not necessarily bring corporate limited liability.

A state normally treats the entity selected under federal check-the-box as the entity acknowledged for state tax purposes, but this is not always the case.

The law of a state may agree to passthrough status for an entity like an S Corp or an LLC, but still enforce some sort of tax on the entity.

Incorporating

What is the definition of a corporation?

A legal entity that exists independently of its owners is a corporation. When correctly filled out articles of incorporation are filed with the proper state authority and all fees are paid, a corporation is created.

There is a difference between an "S" corporation and a "C" corporation, what is it?

Every corporation begins as a "C" corporation and must pay income tax on the taxable income made by the corporation. After filing federal form 2553 with the IRS, a "C" corporation becomes an S corporation. The net income or loss of an "S" corporation is included in their personal tax returns and are "passed-through" to the shareholders. There is no double taxation as with "C" corporations because income tax is not taxed at the corporate level. Also known as Subchapter "S" corporations, they are limited to 100 shareholders.

Is an attorney necessary to incorporate?

Obtaining a lawyer is not a necessity to incorporate (except in South Carolina, where an attorney's signature is required). You can fill out and file the articles of incorporation by yourself in every other state. However, you should be completely briefed on all aspects of the law beforehand.

A good corporate attorney can be an irreplaceable resource to a small business despite the expensive hourly rates. A one-hour consultation can be very beneficial if you are unsure of the process, or if there isn't time for research. Prepare a list of questions before the consultation.

Is there a process for naming my corporation?

Take time to think about a name for your corporation. The most common rule for naming your corporation is that it cannot be misleadingly similar to a company that is already formed, but each state has their own rules. A suffix must be included in the corporation name such as "Incorporated", "Inc.", "Company", and "Corp." Each state has suffix standards of their own.

Are there benefits to incorporating?

Limiting your liability to the assets of the corporation is the primary advantage of incorporating. It is common that shareholders are not responsible for the debts or obligations of the corporation. Unless you didn't personally sign for the loan and your corporation defaults on it, your personal assets are safe. With a sole proprietorship or partnership, this is not the case. There are many tax advantages that are available to corporations and not sole proprietors.

A few of the advantages are:

- A corporation allows for easier setup of retirement funds and qualified retirement plans (such as a 401k).
- The life of a corporation is not limited and is not dependent upon its members. The corporation will continue to prosper and do business even if an owner dies or wants to sell their interest.
- A corporation has a centralized management.
- It is easy to transfer ownership of a corporation.

- With the sale of stock, capital can be raised more easily.

What exactly is a Registered Agent?

In the majority of states, a corporation is required to name a "registered agent." The agent must be located in the formation state. The registered agent must be accessible during regular business hours to receive official state documents or service of process.

Do I need a specific number of Directors or Shareholders?

Most states permit one person to function as director, shareholder, and all officer roles.

Are there a number of shares of stock I should choose and at what par value?

You may select any quantity that you wish. The par value is either "No Par Value" or any dollar amount per share as you choose. In some states you must issue the stock for no less than the par value. Some states establish their fees from the amount of shares approved, multiplied by the par value.

What does EIN stand for and what is a Federal Tax Identification Number?

A Federal Tax Identification Number, which is also known as a Employer Identification Number (EIN) is required for each corporation so the IRS may track payroll and income taxes paid by the corporation. Just as a Social Security number, an EIN is used for almost every function of the business.

After I incorporate, what do I do next?

If your director(s) have yet to be designated in the articles, you will need to hold your first shareholder meeting to select your director(s). After that, you will need to hold the first organizational meeting of directors. During this meeting, you will hold elections for officers, approve the company's bylaws and issue your stock, as well as other actions.

Limited Liability Companies

Who should establish an LLC?

If you are worried about personal exposure to lawsuits that arise from your company, you should think about forming an LLC (Limited Liability Company). For instance, you might be concerned that your commercial liability insurance will not completely protect your personal assets from possible slip-and-fall lawsuits or claims by your suppliers for unpaid invoices if you open a storefront business that works directly with the public. An LLC gives you personal protection from these and other possible claims against your business.

However, not every business can function as an LLC. Businesses typically prohibited from establishing LLCs are those in the banking, trust and insurance industries.

Is an LLC or an S corporation better?

Even though the special tax status of the S corporation does away with double taxation, it doesn't have the elasticity of an LLC in distributing income to the owners.

Various classes of membership interests are offered with an LLC, whereas you can only have one type of stock with an S corporation.

In an LLC, a variety of individuals or entities may have interests, although the number of shareholders who can have ownership interest is restricted to no more than 100. C corporations, many trusts, LLCs, nonresident aliens, partnerships, or other S corporations may not have ownership of S corporations. It is also important to note that LLCs are permitted to have subsidiaries without limitations.

What does an LLC Operating Agreement signify?

It allows you to structure your financial and working relations with your co-owners in a way that best fits your company. Your co-owners and you determine each owner's percentage of ownership in the LLC, his/her rights and responsibilities, his/her share of gains or losses, and what will become of the business in case one owner leaves.

Is it necessary to have an Operating Agreement?

It is possible to have a written operating agreement in most states, but you are not advised to begin a business without one. The following are a few reasons why an operating agreement is necessary:

- By showing that you have been meticulous about organizing your LLC, it aids in guaranteeing that courts will be respectful of your personal liability protection.
- Rules that regulate how profits will be separated, the process for making major business decisions, and the measures for handling the departure and addition of members are established.
- It aids in avoiding misunderstandings between the owners and management over finances.
- It prevents your LLC from being regulated by the default rules in the LLC laws of your state, which may not be to your advantage.

Is it necessary to have LLC meetings?

Failure to have shareholder or director meetings can cause the corporation to be subject to alter ego liability, although this is not typical of LLCs in most states. For example, in California the failure of an LLC to have meetings with members or managers is normally not regarded as grounds for enforcing the alter ego doctrine if the LLCs Articles of Organization or Operating Agreement do not state the requirement of said meetings.

Are there exceptions to Limited Liability?

Even though LLC owners enjoy the benefits of limited personal liability for many transactions of their business, it is important to note that this protection is not absolute. The owner of the LLC may be held personally responsible if he/she:

- purposefully does something illegal, fraudulent, or clearly wrong that causes injury to the company or someone else
- is unsuccessful in depositing taxes withheld from employees' wages, or personally certifies a business debt or a bank loan that the LLC defaults on
- personally and directly hurts someone, or
- acts as the LLC in the broadening of his or her personal affairs instead of an individual legal entity.

The most important is the final exception. There are times when a court may declare that an LLC isn't real and find that its owners are actually conducting business as individuals who are in fact responsible for their actions. To prevent this, be sure that your co-owners and you:

- Act legally and rationally. Do not hide or misrepresent material facts or the position of your finance to creditors, vendors or other third parties.
- Sufficiently fund your LLC. In order to meet foreseeable expenses and liabilities, make sure to invest adequate funds into the business.

- Maintain the LLC and personal business separate. Maintain your personal finances away from your LLC accounting books. Create a business-only checking account and obtain a federal employer identification number.
- Prepare an operating agreement. To create liability for your LLC's separate existence, a formal operating agreement in writing is helpful.

When your limited liability protection doesn't shield your personal assets, a good liability insurance policy will help. For example, if you are a massage therapist and you hurt a customer's back by accident, you will be covered by your liability insurance policy. This insurance also comes into play to protect your personal assets in the event that the court ignores your limited liability status.

This insurance can also protect your corporate assets from claims and lawsuits, as well as protect your personal assets in certain situations. However, it is important to realize that commercial insurance typically doesn't protect corporate or personal assets from unpaid debts of the business, whether they're personally insured or not.