

5 Things to Know when Starting a Business

#1 What type of company do you want?

There are three primary types of companies: sole proprietorship, partnership, and corporation. You may also have heard of a fourth type: LLC's, or limited liability companies. LLCs are treated as partnerships or as corporations for tax purposes, depending on which election you make. Which one you want for your business will depend on a number of factors.

- a. Do you work alone or do you have one or more partners? With more than one person, you will want to form a partnership or corporation (or LLC).

- b. Will you have employees? If yes, a partnership or corporate structure (or LLC) is going to be better for you.
- c. What will the tax consequences be? (See below.)

In all cases other than a sole proprietorship (and some partnerships), you will need to file documents to register your new company with the secretary of state. An attorney can help draft the documents and make the filings.

#2 Taxes, Taxes, Taxes

The type of company you choose to operate with will affect your taxes significantly. A sole proprietorship is not taxed separately – you record the earnings of the business on your own personal tax return. Partnerships are taxed on a pass-through basis, with the gains and losses passed on to the partners. Corporations are usually taxed separately, resulting in what’s often referred to as the “double tax,” though corporations that elect Subchapter S treatment may not have this element. LLCs may be taxed as either partnerships or corporations. And state tax rules vary widely. Taxes can be tricky, and you will want to talk to a tax advisor, accountant, or legal counsel before making a final decision on your structure and tax elections.

#3 Location, Location, Location

Where your business is located may make a big difference to you in terms of taxes, applicable laws, and other matters. Of course, if you are running a storefront business, your location means everything to your success in bringing

in customers! But it may also mean you have significant expenses for rent. For those who operate out of their homes, you can often obtain a tax deduction for the portion of your home that you use exclusively for the business (such as a designated home office). Just don't use that space for anything else. You will also want to consider where to form your business. Many large corporations are formed in Delaware, because of helpful state laws and procedures in that state. Most smaller companies form in the state where they operate. If you form your company in a state other than where it operates, just be aware that you will usually have to register the company to do business in its state of operation as well. A lawyer can help you take care of those steps.

#4 Who runs the show?

A very important question to answer when forming a business is who will be in charge. Let's say you and your cousin want to run a business together. You can form an equal 50/50 partnership or corporation. Or, depending on the relative contributions you each will make to the business (whether financial or otherwise), you can divide up ownership in a different way: 60/40, 70/30, etc. Whoever has the greater percentage will generally have a greater say in how the business is run. There is a lot of flexibility in how the company can be structured, though, and voting rights can differ from ownership rights in some cases. You will want to think very carefully about this, as it will affect the relationship between you and your business partners for a long time to come.

#5 Get going and have fun (but make your filings)!

Running a business can be challenging and frustrating, but it can also be extremely rewarding. There's nothing better than being your own boss!

Once you get the legal elements in place, and consider the tax consequences, you are ready to start operating. There are still a few things to remember, from a legal perspective:

- a. Make sure you maintain appropriate records for the operation of the business – maintain files with copies of all contracts, corporate/legal records, receipts, financial statements, legal communications, etc. etc.
- b. Don't forget to file your annual tax returns (both state and federal) for the business.
- c. Be sure to make all the annual filings required by the secretary of state for the state(s) in which you operate.
- d. Enjoy!