Setting Up a Business Lesson: 2204

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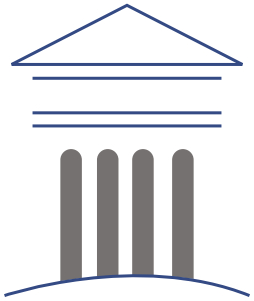
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Objectives

In this lesson, you will learn

1. What you will need to start your own business.
2. Ways to finance your business.
3. What kind of insurance an entrepreneur needs.
4. Federal, state, and local regulations that concern businesses.
5. Three possible business structures and how to choose the best one for your business.
6. Which tax laws apply to your business and how to comply with them.

Setting Up Your Own Business

THE IMPORTANCE OF A GOOD START

To get your business started, you will need a product or service to sell as well as market research and financial planning. The primary cause for most new business failure is poor planning and insufficient research. This lesson will give you the information you need to plan your business properly so you can get off to a strong start. To be successful in your new business, you will need to carefully calculate how to make the business not only survive but also thrive. In addition to market research and financial planning, you will need a positive attitude, confidence, and a strong belief in yourself and your abilities. Think about it: What do successful people have in common? They are motivated, enthusiastic, and self-confident. If you do not believe in your abilities, no one else will. If you believe in your abilities, it will show, and you will inspire confidence in others.

WHAT DOES AND DOES NOT WORK — TIPS FROM PEOPLE WHO KNOW

Since many businesses fail because of inadequate financing, the Small Business Administration (SBA) advises you to start your venture with enough capital to get you through the first year. With luck, you will start earning an income before then, but you will need cash reserves. If you can afford to finance the business yourself, you should.

You may want to set up your own business slowly. If you start small, you will not take on the financial burden that bogs down many small businesses. Start with one or two clients while you are still working full-time. Then when you are ready to go full force, you will have a base from which to start. This really works!

Another good way to get started is to use a part-time job to provide supplemental income to your new business. When your business income equals the income from your part-time job, it is time to quit the job. Temporary work can also provide steady income while you are getting started and put you in contact with potential clients.

According to successful entrepreneurs, to be successful in your business you should endeavor to do the following:

1. Spend 6-10 months researching the market and setting up the business.
2. Plan financial strategies and maintain accurate records.
3. Market your business continually and consistently.
4. Create a niche in the market for your service or product.
5. Always appear confident and competent.
6. Show your clients that you are serious about your work and eager to please.
7. Be flexible, particularly during unexpected crises.
8. Enjoy your new vocation so thoroughly that it gets you through tough times.

NAMING YOUR BUSINESS

Selecting a name for your business is a task you should take seriously. Your business name will be with you for years. Once you have built a reputation, it will be hard to change your name without losing customers. Here are some guidelines to consider when selecting a business name.

1. Your business name should describe your service. The public should instantly know what service you provide just by looking at your name.
2. Names beginning with the first letters in the alphabet have a distinct advantage over others because they have prime positions in directories and phone books.
3. Using your own name in the business may harm your family if you are forced into bankruptcy.
4. Your business name should be easy to pronounce, easy to remember, and easy to spell. If it is not, your word-of-mouth advertising will suffer.

With these guidelines in mind, make a list of names that appeal to you. Ask your friends and relatives to help you brainstorm. Once you have a list, look in a dictionary or thesaurus to find synonyms. Aim for combinations that are short and snappy. Once you decide on a name, register it with the county clerk's office to find out if anyone else is using it. If anyone is, you will have to come up with another.

SELF- TEST QUESTIONS

Please check your answers on page 24.

1. **What is the primary reason why new businesses fail?**
2. **Why do business names beginning with the first letters in the alphabet have an advantage?**

Setting Up an Operating Budget

Starting any business costs money. If you do not have enough money to pay your expenses and your salary, your business will fail. One way to avoid this problem is to prepare a first-year operating budget. Figure 1 on page 10 shows an example of a simple operating budget worksheet you can find online for free to create yourself.

START-UP COSTS

Going into business for yourself means that you will have certain start-up (one-time) costs that you must plan for. To estimate these start-up costs, list the items you will need to start your business. Here are some suggestions:

- Computer & software
- Telephone answering system and/or cell phone
- Desk and chair
- Bookcase or shelving
- Filing cabinet
- Tools needed to run your business.

Now, estimate the cost of each item on your list. This step may require some research. For instance, to estimate the cost of your office furnishings, you might look in an office furniture catalog. Enter your estimate for each item on a first-year operating budget log.

OPERATING EXPENSES

In addition to start-up expenses, your first year's budget must include ongoing operating expenses. Here are some items you may want to include:

- Advertising
- Your salary
- Insurance
- Utilities
- Rent
- Office supplies: paper clips, pens, pencils, etc.
- Association dues
- Business cards
- File folders
- Printing costs for business cards and office stationery
- Licenses and permits
- Backup fund *(20% of total budget)*

Enter your estimated operating expenses in the budget, and calculate your total projected first-year operating budget. Look at your total. Does the amount surprise you?

Do you have that much money put away? Of course, the cash you need does not have to come from your own bank account — you can borrow money. But the less you borrow, the more secure your business venture will be.

SETTING UP A BUSINESS BANK ACCOUNT

Although a business account costs more than an individual checking or savings account, it is a good idea to separate your private and business funds. One advantage of a separate business account is that you can use your statement and checks to keep a record of expenses. Another benefit is that the checks can be printed with your business name and logo.

In order to open a commercial account, banks require you to present various types of documentation specific to the type of business entity you have chosen to form. Contact your local county clerk's office to find out how to obtain the correct documentation for your business.

FINANCING YOUR BUSINESS

As stated earlier, if you can afford to finance the business yourself, you should. Even if you can only afford to finance half of it, you are still ahead of the game. The most common ways to finance a new business are by financing with your own money, using credit cards, borrowing from family and friends, and borrowing from a bank.

Self-Financing. Self-financing means you save the money and finance your business yourself. Because saving all the money you need can take a long time, it might be easier to begin part-time. Then as your business grows, you can put your profits back into the business and grow slowly. The advantage of financing your own business is that you are in total control and you do not have to answer to anyone else.

Expense Budget

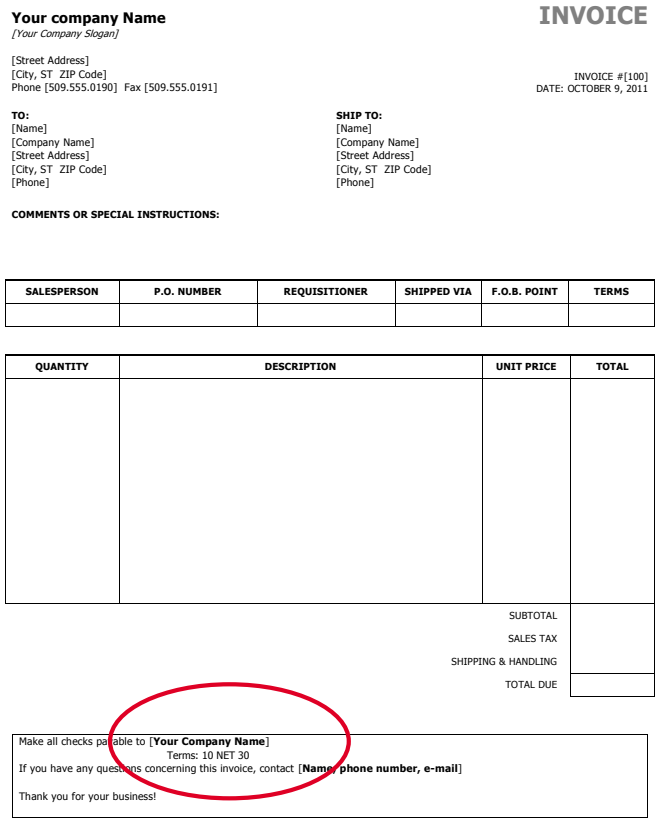
[Company Name] [Month and Year]

Personnel	Budget	Actual	Difference ($)	Difference (%)
Office			$-	0.0%
Store			-	0.0%
Salespeople			-	0.0%
Others			-	0.0%
Operating	**Budget**	**Actual**	**Difference ($)**	**Difference (%)**
Advertising			$-	0.0%
Bad debts			-	0.0%
Cash discounts			-	0.0%
Delivery costs			-	0.0%
Depreciation			-	0.0%
Dues and subscriptions			-	0.0%
Employee benefits			-	0.0%
Insurance			-	0.0%
Interest			-	0.0%
Legal and auditing			-	0.0%
Maintenance and repairs			-	0.0%
Office supplies			-	0.0%
Postage			-	0.0%
Rent or mortgage			-	0.0%
Sales expenses			-	0.0%
Shipping and storage			-	0.0%
Supplies			-	0.0%
Taxes			-	0.0%
Telephone			-	0.0%
Utilities			-	0.0%
Other			-	0.0%
Total Expenses	**Budget**	**Actual**	**Difference ($)**	**Difference (%)**
	$-	$-	$-	0.0%

Figure 1: Example of operating budget worksheet.

Using Credit Cards. Some people use credit cards to help finance their new businesses. If you decide to try this, use your credit card exclusively for business expenses. Never mix personal and business expenses. Pay your credit card balance as soon as possible because interest rates for credit cards are often high. If you establish good credit on a credit card, it may help you later if you want to apply to that same bank for a loan to expand your business.

Borrowing from Family and Friends. If you have a good track record, your friends and relatives may be willing to invest in your business. You can offer to pay them interest or a percentage of your profits until you have repaid the loan. If you choose to use this method, make sure you have a business plan to show your lenders. Avoid letting them have a say in your business decisions. Structure the deal just as if they were bankers lending you money in exchange for a good return on their investment. To assure them that you will repay the loan, put the terms in writing and include penalties. Family and friends may be the perfect source for loan money to start your business, but remember, if your business fails, it could mean the end of your relationship.



Your company Name
[Your Company Slogan]

[Street Address]
[City, ST ZIP Code]
Phone [509.555.0190] Fax [509.555.0191]

INVOICE

INVOICE #[100]
DATE: OCTOBER 9, 2011

TO:
[Name]
[Company Name]
[Street Address]
[City, ST ZIP Code]
[Phone]

SHIP TO:
[Name]
[Company Name]
[Street Address]
[City, ST ZIP Code]
[Phone]

COMMENTS OR SPECIAL INSTRUCTIONS:

SALESPERSON	P.O. NUMBER	REQUISITIONER	SHIPPED VIA	F.O.B. POINT	TERMS

QUANTITY	DESCRIPTION	UNIT PRICE	TOTAL
		SUBTOTAL	
		SALES TAX	
		SHIPPING & HANDLING	
		TOTAL DUE	

Make all checks payable to [**Your Company Name**]
Terms: 10 NET 30
If you have any questions concerning this invoice, contact [**Name, phone number, e-mail**]

Thank you for your business!

Figure 2: *By indicating your terms on your invoice clearly, the customer knows when payment is expected and can be motivated to pay early by offering a discount.*

Borrowing from a Bank. You can also finance your business with a bank loan. Unfortunately, it is often easier to get a loan to remodel your house or to buy a new car than it is to get one to start a business. Many banks do not want to lend money to a new business because of the historically high failure rate. Those that do often charge exceptionally high interest rates. Although commercial lenders have been reluctant to lend to small start-up businesses in the past, this is changing. However, be prepared to demonstrate your long-term business strategy and your current financial status. You have a better chance of getting a loan if you have already raised some of the money yourself. Many lenders expect you to finance at least 50% of your business.

If you decide to apply for a bank loan, you may contact the Small Business Association (SBA) for a list of banks in your area that participate in small business loan programs. Other public sources of funding partially sponsored by the SBA include Small Business Investment Companies (SBICB) and Minority Enterprise Small Business Investment Companies (MESBICs). More than 400 SBICs throughout the country provide loans and management assistance to fledgling businesses. If you live in a rural area, the Farmers Home Administration, part of the U.S. Department of Agriculture, loans money through local banks. The Commerce Department also offers loans through regional Economic Development Administrations in cities with high unemployment.

To help develop the information that a bank or other sources of funding would be looking for when considering your loan request, contact your local Service Corps of Retired Executives (SCORE).

ANTICIPATING AND AVOIDING CASH-FLOW PROBLEMS

Cash flow is simply cash that comes in and cash that goes out of a business. Cash-flow problems arise when more cash goes out than comes in. Often a business pays up front for its supplies but waits weeks or months to be paid by its clients. This situation can lead to serious cash-flow problems. To avoid this, establish billing and payment policies that do not leave you short of cash. One simple way to do this is to minimize what others owe you.

Billing Policies. Under a standard billing policy, customers must pay within 30 days of receipt to avoid paying interest. This is called net 30 billing. To motivate your clients to pay sooner, offer a discount for bills paid in less than 30 days. For example, 5% 10 net 30 means the customer gets a 5% discount if the invoice is paid within 10 days, otherwise the balance is due in 30 days (Figure 2).

While it is not always feasible, try to get deposits, retainers, and partial payments from your clients when you begin a project. If you anticipate buying materials, you can request an advance to pay for those expenses. This way, you have at least part of the total fee for the project and a hedge against the cash squeeze.

Payment Policies. Make the most of the cash you have on hand by charging business expenses and then paying the charge bills on time, but not early. And, of course, deposit your earnings in an interest-bearing checking account. In addition, ask suppliers for interest-free credit. After you have established a dependable credit history, they may be willing to set up such an arrangement.

Another way to avoid cash-flow problems is to keep a cash reserve. As you already know, it is a good idea to have enough money saved in an interest-bearing account to cover your business costs for at least a year. It makes sense to establish some financial goals, such as how much you hope to make in the first year. Setting a goal helps you keep your budget strategy realistic and on target.

Accepting Credit And Debit Card Payments

SDI helps students enter the gun industry, and **Payment Alliance International** can help you get set up to accept convenient forms of payment including Visa, MasterCard and Discover at wholesale rates. Their *Shooting Sports Payment Package*, as negotiated by the NRA and NSSF ensures new gun merchants not only get the best rates, but also the best terms including no monthly minimums, no early termination fees and no to low startup fees.

PAI was the first to create a complete *Shooting Sports Payments Package* and will process credit and debit cards in a storefront, wireless or e-commerce environment.

While other card processors have walked away from the firearms/shooting sports industry, Payment Alliance International has embraced it. They work with over 1000 FFLs and industry professionals and offer a wide variety of payment solutions to meet your individual needs. Under the *Shooting Sports Payments Package*, Payment Alliance International offers a guaranteed lowest pricing point and a portion of every card transaction is donated to the National Shooting Sports Foundation or the NRA. (www.gopai.com/shooting)

SELF-TEST QUESTIONS

Please check your answers on page 24.

3. **What will your start-up costs include?**
4. **What are the advantages of a commercial bank account?**
5. **Name some sources of funding.**
6. **What are some steps you can take to avoid cash-flow problems?**



Figure 3: *Payment Alliance International can help your business accept credit card payments.*

Insuring Your Business

Because your business is a considerable investment of time and money, you should carry insurance to protect yourself in case of fire, theft, or lawsuit. Your insurance should give you enough money to start over if you need to. Visit an insurance agent and discuss your needs. It is a good idea to visit more than one agent to compare the coverage and the cost of various programs.

WHAT COVERAGE DOES YOUR BUSINESS NEED?

To find insurance that fits your needs, start by identifying your business's risks. Consider legal issues, risk factors, and potential losses. It makes sense to work with an insurance broker who sells several different policies and has a broad knowledge of the industry. But do not overlook independent agents, because some insurance companies will only sell policies through them. To get the best price, you may want to take out several policies from different insurance companies, although you may get a discount if you use one company for all your insurance needs.

Before deciding on an insurance program, compare prices and coverage. Many insurance companies offer lower rates for preventive measures such as burglary and smoke alarms. But these preventions may cost more than you would save with reduced premiums. The insurance market is competitive, so shop around to get the most appropriate and affordable policy. When you do settle on a policy, be sure to describe precisely and record all assets and their values.

For an additional cost, a replacement-value insurance policy pays for replacement of any damaged or destroyed item, regardless of its age. A regular policy only pays you the value of your damaged possessions after depreciation. This means that a 10-year-old desk you paid $500 for could be worth only $50 after depreciation.

Comprehensive Liability Coverage. Although the cost of liability insurance has skyrocketed in recent years, it may be worth getting. Liability insurance generally covers accidental injury, damage to another person's property, and accusations of libel or slander. The policies should cover accidents that happen on business premises or while using business property such as an automobile. As a sole owner of the business with no employees, you might not need liability coverage. However, as your business grows and you add employees, you are likely to need liability insurance.

Worker's Compensation Insurance. Worker's compensation insurance reimburses employees who cannot work because of injury suffered on the job. Most states require employers to carry worker's compensation insurance.

Fire and Interruption-of-Service Insurance. There are a variety of policies to cover losses from fire. A blanket policy offers comprehensive protection for damage from a range of sources— lightning, hail, wind, explosion, arson, smoke damage, and sprinkler leakage. Other policies only cover the burned building. Interruption-of-service insurance compensates you for business income lost due to illness, fire, or theft. Premiums are usually low, so it is affordable protection. Some policies include this coverage, while others require you to purchase extra coverage.

Burglary Insurance. Because the definition of burglary ranges from policy to policy, it is critical to choose a policy that fits the particular needs of your business. Your most expensive equipment should be fully covered.

Natural Disaster Exclusions. Most insurance companies do not cover damage from "acts of God" such as hurricanes, tornadoes, floods, and hail. Although there are a few companies that do offer natural disaster coverage, the federal government usually compensates for such damage in the form of disaster relief funds and loans.

In addition to private insurance companies, the federal government also offers fire and theft insurance. Find out the details by writing to the following:

Federal Crime Insurance
P.O. Box 41033
Washington, DC 20014

WHAT COVERAGE DOES A SELF-EMPLOYED PERSON NEED?

Health Insurance. When you work for yourself, you no longer have the luxury of employer-paid health insurance. To protect yourself financially, never go without health insurance. Under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1986, an employee who leaves a job is entitled to remain with the company's group health care coverage for 18 months after leaving. This is an excellent way to insure yourself while you shop around for another policy.

To take advantage of lower group rates, you can join a professional association with a group insurance policy. Some associations offer HMO coverage and other health plan options. Choose a plan based on your health care needs. If you do not visit the doctor often, you may opt for coverage limited to hospitalization. You should also consider whether you need coverage for your family. Many plans cover spouse's insurance needs, so you may not need an additional plan.

Disability Insurance. Although you may be covered for medical treatment, you could be in trouble if an illness forces you out of work, particularly if you are single and without any other income. Take out as much disability insurance as you can afford, because your operating costs will continue even if your income does not. If you have expensive overhead, look into BOE (business overhead expense) insurance to cover your operating expenses while you are out of commission. Although policies vary, basic plans based on the amount of revenue you earn cover your office and employee expenses.

Life Insurance. An unmarried entrepreneur with no children is unlikely to need life insurance. Even so, you may want to consider it because as the owner of a small business, if you die, the entire operation probably will collapse.

Partnership Insurance. If you have a business partner, and your partner dies, partnership insurance covers his or her share of the business as a property asset. However, when a partner dies, the partnership is legally dissolved. With insurance, someone can inherit the partner's share, the share can be "bought out," or a new partnership can be formed. In many cases, the deceased partner's shares are bought by the original partner in order to prevent outsiders from buying in. Adequate insurance provides the cash to do this and can prevent liquidation of the business.

SELF-TEST QUESTIONS

Please check your answers on page 24.

7. ***True or False*. Most insurance companies do not cover "acts of God."**
8. **What does comprehensive liability insurance cover?**

Licenses and Permits

Whenever anyone starts a company, the government wants to know about it. The government wants to make sure the business complies with the laws that protect businesses and customers, and the government wants its fair share of taxes.

In this section, we will look at the common laws and regulations you must comply with when you establish and operate a business. Remember, regulations vary from state to state and city to city, and they change frequently. Contact your state and local government to get the exact information that applies to your business. Most local governments publish useful guides that tell you everything you need to know to establish a business.

Business Licenses. Just as every driver must have a license to drive a car, in most states every business must have a license to operate legally. Business licenses and permits are issued by local city or county governments. The fees range from a few dollars to several hundred dollars. The exact cost usually depends on two things: the type of business you have and how much gross income you make in a year. Gross income is how much your business receives in income before you deduct expenses and taxes.

State Licensing. Some business owners must also be licensed by the state or by the federal government. Common examples of these include doctors, attorneys, and certified public accountants. If your profession requires a state license, your local city or county office will let you know. Most state licenses have education and training prerequisites, and most require a written examination.

Seller's Permit. If a business sells products to the public, it must have a seller's permit, also known as a resale certificate. The seller's permit enables a business to buy products at wholesale prices to resell at retail prices to customers without paying sales tax to the wholesale vendor. When you sell products to your customers, you collect sales taxes from them. A seller's permit ensures that the government collects its sales tax only once for the product — not twice.

To obtain a seller's permit, contact your state office of taxation. If you have any doubts about whether you are selling a service or a product, talk to the state office and describe your business. They will advise you on what to do. Your city and county government can tell you which state office to call.

JT-1/UC-001 (7/11)

ARIZONA JOINT TAX APPLICATION

IMPORTANT: ***Incomplete applications WILL NOT BE PROCESSED. All required information is designated with asterisk*** *
To complete this application see attached instructions. Please return Complete application with appropriate license fee(s) to: **License & Registration Section, Department of Revenue, PO BOX 29032, Phoenix AZ 85038-9032.**

To complete this online, go to www.aztaxes.gov

Section A: Taxpayer Information (Print legibly or type the information on this application.)

1. License Type (Check all that apply) *
   - ☐ Transaction Privilege Tax (TPT)
   - ☐ Withholding/Unemployment Tax (*if hiring employees*)
   - ☐ Use Tax
   - ☐ TPT For Cities ONLY

2. Type of Ownership *
   - ☐ Individual / Sole Proprietorship
   - ☐ Partnership
   - ☐ Professional Limited Liability
   - ☐ Limited Liability Company
   - ☐ Limited Liability Partnership
   - ☐ Corporation
     State of Inc._____
     Date of Inc._____
   - ☐ Sub-Chapter S Corporation
   - ☐ Association
   - ☐ Trust
   - ☐ Government
   - ☐ Estate
   - ☐ Joint Venture
   - ☐ Receivership

   Tax exempt organizations must attach a copy of the Internal Revenue Service letter of determination.

3. Federal Employer Identification Number (Required for Employers and Entities other than Sole Proprietors) or Social Security Number *

4. Legal Business Name / Owner / Employing Unit *

5. Business or "Doing Business As" Name *

6. Business Phone Number *

7. Fax Number

8. Mailing Address (Street, City, State, ZIP code) *

9. Country

10. Email Address

11. Is your business located on an Indian Reservation?
    ☐ Yes If yes, _____ (See Section G for listing of Reservations)
    ☐ No

12. Physical Location of Business (Street, City, State, ZIP code) Do not use PO Box or Route No. *

13. County

For additional business locations, complete Section B-12

14. Are you a construction contractor? *

15. Did you acquire, or change the legal form of business of, all or part of an existing business? *

Figure 4: Sample joint tax application. Each municipality varies so be sure to contact your Small Business Administration or County Clerk to make sure you file the correct documents.

Zoning and the Home Business

Zoning is a method of dividing a geographic area into different uses. The reason for zoning is simple: people want to live in quiet residential neighborhoods, not next to noisy factories or job sites. In addition, business owners prefer to sell their products in locations that attract customers. If you plan on opening a home-based business, zoning is an important consideration.

There are four basic zoning classifications: *residential, commercial, industrial,* and *agricultural*. Zoning laws are passed by each community and are enforced by the community's zoning boards. The laws vary widely. Most communities allow home businesses to operate in residential zones. However, some do not. Those that do operate in residential zones have limitations and restrictions.

How to Get a Zoning Permit. Zoning regulations are created at the city or county level of government. To get information about zoning, contact your local planning department or zoning administration. In most areas, when you apply for a business license, the office will ask you whether you are starting a home business and how to comply with zoning laws.

Homeowner (HOA) and Condominium (COA) Association Rules. Many homeowner and condominium associations prohibit home businesses. The primary reason for this is to restrict any activity which would generate excessive noise, traffic, parking, or contribute to the deterioration of property and property values. These rules are often included in the deed to the property or may be obtained by contacting either a board member of the association or the management company that oversees compliance and administration. It is important to check the ownership agreement carefully before you start a business in your home. If you are renting, it is necessary to contact the landlord for permission to run a business from their property in addition to securing any HOA or COA regulations.

WORKING WITH ZONING RESTRICTIONS

What can you do if your home is not zoned for business? You can either adjust your business or get around the rules by securing a use permit or a variance.

Adjusting Your Business. The first option is simply to adjust your business to comply with restrictions. For example, if you are prohibited from selling retail products, you can use direct mail or hire a sales representative. If manufacturing is involved, you can sub-contract the work to another company. If the restriction is as simple as no parking or limited parking for visiting clients, you can arrange to meet clients in their offices, or sign a parking space disclosure form.

Use Permits and Variances. Another option is to get a special exception to the rules. A use permit allows certain businesses to operate in areas that are not zoned for that type of business. These uses fall under special exceptions that zoning ordinances take into account. In other words, they are exceptions that communities anticipated when they wrote the regulations.

A variance, on the other hand, is a request for an exception to the rules. The community does not expect it or plan for it. A variance is granted by a zoning board or similar group and requires you to submit an application and make your case at a public hearing. You may be able to get a variance if you can prove each of the following:

1. That your business will not harm the neighborhood.
2. That prohibiting your business would deprive you of making a living.
3. That your business is professional.

Before you apply for a variance, it is a good idea to talk to a lawyer. Zoning boards do not like to grant variances, so you must be prepared to make a convincing case.

REGULATIONS CHECKLIST:

Here is a checklist to help you remember everything you need to do to start your business legally:

- **Get a business name**
- **Check state licensing requirements**
- **Check zoning regulations and restrictions**
- **Apply for seller's permit ore resale certificate (if applicable)**
- **Register your business name.**

COUNTY
DEPARTMENT OF COMMUNITY PLANNING, HOUSING AND DEVELOPMENT — ZONING ADMINISTRATION

ACKNOWLEDGMENT AND AGREEMENT TO COMPLY WITH THE CONDITIONS OF A HOME OCCUPATION

(please print)

Applicant _____ Phone No. _____

Address _____ City, State, Zip _____

Proposed Home Occupation _____
(Uses permitted and uses not permitted as home occupations are listed in Section 31, Subsections A-12a and A-12b, of the Zoning Ordinance.)

CONDITIONS

1. A home occupation shall be conducted in or from a residential dwelling or its accessory building by persons whose principal residence is on the premises. The home occupation shall have no more effect on adjacent property than normal residential use.
2. No employees, other than persons legally residing on the premises, shall report to work at a residential location (subject premises) other than work or job site.
3. Not more than one (1) commercial vehicle having a capacity not greater than one (1) ton shall be parked on the property. Said vehicle must be parked to the rear of the rear line of the dwelling or, in the case of an apartment development, in an approved off-street parking area.
4. No contracting equipment or materials shall be stored on the premises, except in a commercial vehicle used for transporting said equipment and materials between jobs. No loading or unloading shall be done on or in the vicinity of the premises.
5. There shall be no evidence on the exterior of the premises or visible from the exterior of the premises that the property is used in any way other than for a dwelling.
6. There shall be no signs.
7. There shall be no outside display, storage or sale of merchandise or equipment.
8. There shall be no audible noise, detectable vibration or odor beyond the confines of the subject dwelling or accessory building, including transmittal through vertical or horizontal party walls.
9. There shall be no on-site employment or use of labor from persons who are not bona fide residents of the dwelling.
10. Instruction of students (including delivery of materials clearly incidental to training) and service to clients or customers shall be limited to twelve (12) persons per day but in no event more than four (4) persons at any one time.
11. The total floor area on the premises to be used for a home occcupation shall not exceed a figure calculated by taking twenty-five percent (25%) of the total floor area of the principal dwelling on the premises excluding attached garages. No more than two percent (2%) of the total floor area of the principal dwelling or a maximum of twenty (20) cubic feet, whichever is less, shall be used for specified storage of stock in trade. The storage of hazardous materials is prohibited. (Storage of specified stock in trade over two percent (2%) but not more than five percent (5%) of the total floor area of the principal dwelling on the premises (excluding attached garages) or forty (40) cubic feet, which ever is less, may be permitted in association with home occupation uses as special exceptions subject to securing a Use Permit as provided for in Section 36.G and subject to all limitations stated herein.
12. There shall be no stocks in trade displayed or sold on the premises except for those produced at the premises.
13. There shall be no parking spaces added to the premises during the time the home occupation is being conducted nor shall any parking space be used that was not customarily used prior to that time. No motor vehicle shall be parked at any place on the lot or property not represented as a parking space on the sketch attached to this acknowledgement.
14. No equipment may be used on the premises other than that which is usual for purely domestic or hobby purposes, or what is usual for a small business, professional, or medical office.

CERTIFICATION

I certify that I am the bona fide resident of the premises identified above; I have read and understand the above conditions; and I can and will comply with each condition without exception. I further certify all of the information is complete and correct to the best of my knowledge and belief.

***Figure 5**: Although most communities allow home businesses, there are often restrictions and limitations as shown in this sample zoning form.*

STATE AND FEDERAL REGULATIONS

A wide variety of laws regulate trade at the state and federal levels. These laws are designed to protect both businesses and consumers. The government regulates credit practices, employee rights, occupational health and safety — every conceivable aspect of business.

As a small business owner, you will not have to worry about many of the regulations that control business activity. But remember, it is up to you to know which laws apply to your business. The government will not send any officials to your door to explain the regulations.

For more information, talk to your city or county office. They will tell you what you need to know and where to get more information. You can also contact your state government or the Federal Trade Commission.

SELF-TEST QUESTIONS

Please check your answers on page 24.

9. **What must every business have to operate legally?**
10. **What must a business have in order to sell products to the public?**

Choosing Your Business Structure

If you are going into business, you should become familiar with legally recognized business structures and decide which is best for you. For most businesses, the main choices are a sole proprietorship, a partnership, or a corporation. Most one-person businesses are sole proprietorships.

Each business structure has advantages and disadvantages. If you do not choose — that is, if you do nothing — you will automatically be a sole proprietor in the eyes of the law. If you go into business with two of your friends and do not put the relationship in writing, you will be considered a partnership. The corporation requires formal legal action to establish. You must contact an attorney or utilize an online legal document preparation service such as LegalZoom (www.legalzoom.com).

SOLE PROPRIETORSHIP

A *sole proprietorship* is the simplest business entity. In legal terms, you and your business are one and the same. The sole proprietorship is the easiest and least expensive business structure to set up. All you need to do is follow the steps outlined in this lesson and you are in business.

The sole proprietor is subject to very few regulations or legal requirements. You do not have to report to anyone else and no one reports to you. In every sense of the word, you are your own boss.

Tax Consequences. The tax consequences of being a sole proprietor are simple. Since you are the business, your net business income is reported on your personal income tax return, and you pay regular income taxes on it as an individual. *Net business income* is what is left over after you deduct business expenses from your gross income, which is the actual amount of money you receive.

Liability. Since you are the only person responsible for your business, you are also the only person responsible for any of its obligations. This is known as *unlimited personal liability*. Personal liability can be a serious disadvantage of sole proprietorships, depending upon the type of business you are in.

For example, say you order $10,000 worth of supplies. Unfortunately, business slows down and you do not make enough money to pay for the supplies. As a sole proprietor, you are personally liable for the entire amount, even if you have to pay back the money by selling your car or by getting a personal loan.

Transfer of Interest. Since a sole proprietorship is no more or less than its owner, it lives and dies with you. That means if you die or become incapacitated in some way, your business ceases to operate. Also, relationships between your business and your creditors, customers, and employees can be difficult to untangle. Finally, it is not easy to transfer legal ownership of a sole proprietorship to your children or to anyone else you might choose.

PARTNERSHIP

A *partnership* is an association of two or more people who run a business for profit. A partnership is an opportunity to team up with others. Partnerships with two or more partners who have roughly equal status are sometimes called *general partnerships*.

Partnerships are legally recognized business entities, even if the partners do not draw up a written partnership agreement. Of course, it is a good idea to draft a partnership agreement if you are considering forming a partnership. Except for the agreement, a partnership is as easy to set up as a sole proprietorship. There are minimal reporting requirements.

Tax Consequences. Like a sole proprietorship, a partnership is a tax reporter, not a taxpayer. That is, any income you receive from a partnership is reported on your personal income tax return and taxed as regular income, just like in a sole proprietorship. Each partner can deduct his or her share of losses for that year from income earned from other sources.

Liability. Unlike a sole proprietorship, a partnership has more complicated liability arrangements. Not only do you have unlimited personal liability, but your partners do too. For example, each partner is liable for all the partnership debts. The result? Well, if you are 50-50 partners with your friend and your friend skips town to avoid a debt, you are stuck with 100% of the debt.

In a partnership, each partner is an agent of all the other partners. That means each partner can bind the other partners in a contract. That is why it is vital to have clear agreements that state exactly who is responsible for what.

Transfer of Interest. As an individual partner, it is not difficult to transfer your interest in a partnership or to be bought out by your fellow partners. But in such circumstances, the partnership agreement must be rewritten. And if the partnership owns property, it is hard to separate each partner's share or to transfer the entire partnership to other partners.

LIMITED LIABILITY COMPANY (LLC)

A *Limited Liability Company* (LLC) is a unique business structure that combines features from both the corporation and partnership models, while providing businesses with several taxation and management options. An LLC is allowed by state statute and therefore each state may use different regulations. If you are interested in starting a Limited Liability Company, you will need to check with your state to determine requirements and federal tax regulations. A few types of businesses cannot be LLCs, such as banks and insurance companies, and there are special rules for foreign LLCs.

Owners of an LLC are called *members* and most states do not restrict ownership, so members may include individuals, corporations, other LLCs, foreign entities, and "single-member" LLCs — those having only one owner.

Tax Consequences. Companies formed under an LLC must elect to be taxed like a sole proprietorship, a partnership, or a corporation. If electing to be a sole proprietorship or partnership, an LLC avoids federal income taxes on company profits because there is no taxation at the company level; instead, profits are distributed to the members to be reported on their individual tax returns. But if an LLC business elects a corporation tax classification, it faces double taxation as its profits are taxed at the corporate level and again when distributed to the members to be reported on their individual tax returns. The reason an LLC may choose this classification is to save money on company profits, as corporate tax rates are lower than individual tax rates. Doing this also separates company profits from the owner's income, which can then be used to support the business.



Control No. 08048580

STATE OF GEORGIA

Secretary of State
Corporations Division
315 West Tower
#2 Martin Luther King, Jr. Dr.
Atlanta, Georgia 30334-1530

CERTIFICATE
OF
INCORPORATION

I, **Karen C Handel**, the Secretary of State and the Corporations Commissioner of the State of Georgia, hereby certify under the seal of my office that

BEAVER RUN LANDOWNERS' ASSOCIATION, INC.
a Domestic Non-Profit Corporation

has been duly incorporated under the laws of the State of Georgia on **05/30/2008** by the filing of articles of incorporation in the Office of the Secretary of State and by the paying of fees as provided by Title 14 of the Official Code of Georgia Annotated.

WITNESS my hand and official seal in the City of Atlanta and the State of Georgia on May 30, 2008

Karen C Handel
Secretary of State

Figure 6: Corporations are the most complicated business structures to establish. It's best to seek professional advice when setting up a corporation.

Liability. One of the major benefits of an LLC is the limited liability protection it provides its members. Setting up an LLC is less expensive and requires less paperwork than for a corporation but still receives the same protections. The structure of an LLC allows a company to convert into a corporation if it needs to do so, and members are not held financially or personally liable for the company's debts or for actions of the company resulting in a lawsuit. However, members of an LLC business do not have total liability protection and are legally responsible for certain actions: the limited liability protection does not apply to members who commit fraud, are negligent, or who personally guarantee a debt repayment.

Transfer of Interest. A limited liability company cannot be freely sold or gifted to another party —ownership interests can only be transferred to another person if the existing members of the partnership agree and if the state law that governs the LLC allows full partner substitutions. In some instances, the law allows the transfer of the ownership interest, but the new person has no right to participate in running the LLC; he has the right only to his proportionate share of profits or losses. If an agreement cannot be reached concerning new ownership, or the state where the LLC operates prohibits transfer of an interest in an LLC entirely, the LLC will be required to dissolve and pay out the members. The remaining members can then form a new partnership to proceed.

CORPORATION

A *corporation* is a commonly misunderstood business structure. Most people think of corporations as large, impersonal companies that employ hundreds of people. Yet there are corporations that consist of a single stockholder. The key distinction between a corporation and other business structures is that a corporation is a legal entity, separate from its owners and stockholders. It is actually considered a "person" in the eyes of the law.

Unlike other business structures, a corporation may be complicated and expensive to set up, and has many reporting requirements. Formal documents, such as articles of incorporation, as shown in Figure 6, must be drawn up and submitted to the government. Minutes of meetings must be taken. A board of directors must be chosen.

Tax Consequences. Unlike other business structures, corporations pay taxes on corporate earnings. When these earnings are distributed to you as dividends, you must include them in your personal income tax return and pay additional taxes. So, if you are a stockholder (even the only stockholder), you are being taxed twice: once as a corporation and once as an individual receiving corporate dividend income. This is an obvious disadvantage to incorporating your business.

Liability. Perhaps the biggest advantage of a corporation is limited personal liability. Again, this is a result of the corporation's status as a separate legal entity. If an employee is injured and there's a judgment against the corporation, as a shareholder you stand to lose only the amount of money you have invested in shares. Your personal property cannot be used to satisfy the judgment. Similarly, if your corporation borrows money but cannot pay it back, the bank cannot use your personal assets to pay off the debt.

Transfer of Interest. A corporation has a perpetual and separate existence apart from its stockholders. Therefore, it is easy to transfer interest to a family member, to another person, or to another company by selling the corporation or by issuing or selling stock. In fact, one of the reasons corporations were invented was to make transfers of interest easy. This helps businesses raise money and develop new companies.

Subchapter S Corporation. There is another type of corporation called a Subchapter S Corporation. Basically, this is a corporation that is taxed like a partnership. The federal government's Subchapter S regulations allow small businesses to enjoy corporate advantages — such as limited liability — without being responsible for corporate taxes. In a way, Subchapter S corporations let you have your cake and eat it too.

How do you choose the most appropriate structure for your business? In most cases, the choice of business structure is obvious. The vast majority of one-person businesses, such as home-based businesses, are sole proprietorships. Many stay that way from beginning to end. Obviously, if you want to work with others, you must either choose a partnership or a corporation. Some businesses start with one structure, then change to another. A small partnership may grow, hire employees, lease or buy a building, and turn into a corporation.

Although you should consult a lawyer even if you are a sole proprietor, you should definitely see a lawyer if you want to set up a partnership or corporation. And do not be concerned if the decision seems complicated and you want to put off making it. Remember, you can always start business as a sole proprietor and change to a different structure later.

SELF-TEST QUESTIONS

Please check your answers on page 24.

11. **What is the only business structure that requires formal legal action to establish?**
12. **In what kind of business structure are the owner and the business considered one and the same in legal terms?**
13. **What kind of business structure is an association of two or more people formed to carry on a business for profit?**
14. **What kind of business structure is the simplest to establish?**

Taxes

Perhaps no issue is more important or more confusing to a business owner than taxes. The Internal Revenue Service (IRS) offers a great deal of information, but it is not in the business of educating business owners in the details of tax laws. It is up to you to learn how to maneuver in the tax jungle and to get the right kind of help.

This section covers many of the main things you need to know, but it is not comprehensive, and it may not be current by the time you read it. Tax laws are always changing, and you must keep up-to-date. Always consult the IRS for the latest rules, as the IRS provides many useful publications. An especially good one is IRS publication 334 (Figure 7), the "*Tax Guide for Small Business.*" Above all, it is strongly advised that you consult with a CPA or tax attorney to insure that you are in compliance with all tax laws. Remember, this lesson is not a substitute for professional advice!

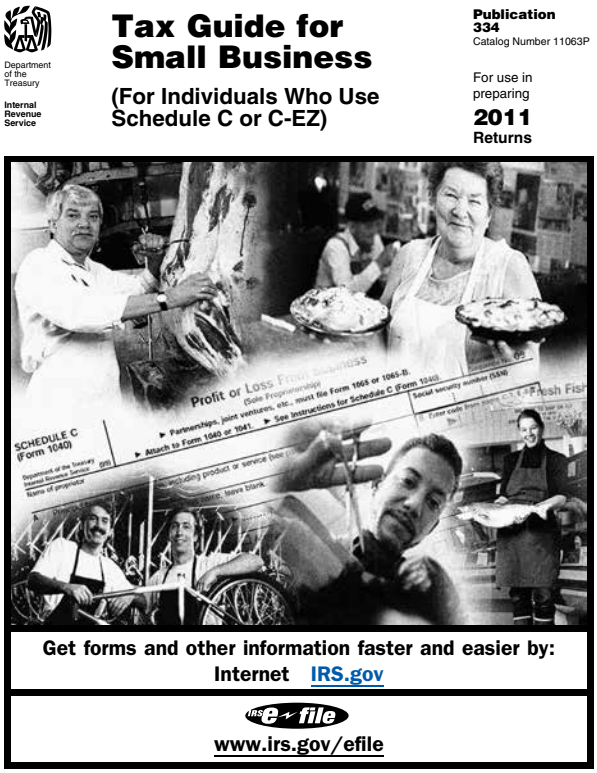


Figure 7: Tax Guide for Small Business is really useful in staying up-to-date with current tax information.

Which tax laws apply to self-employed people? A self-employed person operating as a sole proprietor must pay federal income and social security taxes as well as state taxes, just as if he or she worked as an employee of a company. In addition, a self-employed person is responsible for the following taxes:

- Business license and tangible personal property sales tax
- Sales tax
- Self-employment tax
- Estimated taxes

BUSINESS LICENSE AND PERSONAL PROPERTY TAXES

We have already discussed the business license and how license fees are calculated. The fee you pay for the license is a tax. You may also have to pay a tax on personal property that you use in your business. This is usually referred to as tangible personal property and includes furniture, fixtures, machinery, and tools. You must itemize each piece of property you use in your business, state the date you bought it, and its original purchase price. The tax is calculated on the basis of the total value of your property.

SALES TAXES

As we mentioned before, you must have a permit to sell products. When your customers buy those products, they pay you sales tax. This tax is owed to your state government, unless you live in a state with no sales tax. If you offer professional services, you may not have to charge sales tax, but the rules and definitions differ from place to place. In some communities, certain products of service businesses are taxable.

If you collect sales tax, you must prepare monthly, quarterly, or annual sales tax returns. In some states, you can keep a portion of the sales tax you collect as payment for the cost of collecting it.

SELF-EMPLOYMENT TAX

All sole proprietors, partners, and independent contractors must pay social security taxes.

Self-employment tax is social security tax for self-employed individuals. If your business makes less than a certain amount in profits, you owe no tax. If it makes more (combined with any other income), you owe a percentage in tax. Self-employment tax is paid in addition to federal income tax and state property taxes. If you work for yourself and at a regular job where social security is withheld from your pay, you combine the two incomes to calculate the maximum self-employment tax you owe. Federal form 1040, Schedule SE can help you figure out whether you should file self-employment taxes (Figure 8).

SCHEDULE SE (Form 1040)

Department of the Treasury
Internal Revenue Service (99)

Self-Employment Tax

► **Information about Schedule SE and its separate instructions is at *www.irs.gov/form1040.***

► **Attach to Form 1040 or Form 1040NR.**

OMB No. 1545-0074

2012

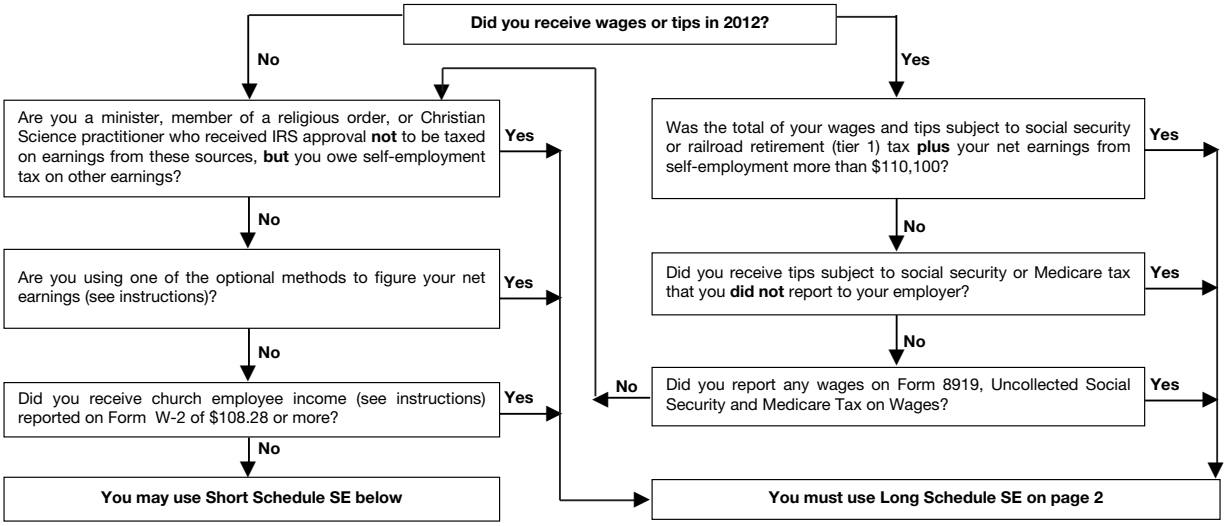
Attachment Sequence No. **17**

Name of person with **self-employment** income (as shown on Form 1040) | Social security number of person with **self-employment** income ►

Before you begin: To determine if you must file Schedule SE, see the instructions.

May I Use Short Schedule SE or Must I Use Long Schedule SE?

Note. Use this flowchart **only if** you must file Schedule SE. If unsure, see *Who Must File Schedule SE* in the instructions.



Section A—Short Schedule SE. Caution. Read above to see if you can use Short Schedule SE.

1a	Net farm profit or (loss) from Schedule F, line 34, and farm partnerships, Schedule K-1 (Form 1065), box 14, code A	**1a**	
b	If you received social security retirement or disability benefits, enter the amount of Conservation Reserve Program payments included on Schedule F, line 4b, or listed on Schedule K-1 (Form 1065), box 20, code Y	**1b**	( )
2	Net profit or (loss) from Schedule C, line 31; Schedule C-EZ, line 3; Schedule K-1 (Form 1065), box 14, code A (other than farming); and Schedule K-1 (Form 1065-B), box 9, code J1. Ministers and members of religious orders, see instructions for types of income to report on this line. See instructions for other income to report	**2**	
3	Combine lines 1a, 1b, and 2	**3**	
4	Multiply line 3 by 92.35% (.9235). If less than $400, you do not owe self-employment tax; **do not** file this schedule unless you have an amount on line 1b ►	**4**	
	Note. If line 4 is less than $400 due to Conservation Reserve Program payments on line 1b, see instructions.		
5	**Self-employment tax.** If the amount on line 4 is: • $110,100 or less, multiply line 4 by 13.3% (.133). Enter the result here and on **Form 1040, line 56,** or **Form 1040NR, line 54** • More than $110,100, multiply line 4 by 2.9% (.029). Then, add $11,450.40 to the result. Enter the total here and on **Form 1040, line 56,** or **Form 1040NR, line 54**	**5**	
6	**Deduction for employer-equivalent portion of self-employment tax.** If the amount on line 5 is: • $14,643.30 or less, multiply line 5 by 57.51% (.5751) • More than $14,643.30, multiply line 5 by 50% (.50) and add $1,100 to the result. Enter the result here and on **Form 1040, line 27,** or **Form 1040NR, line 27**	**6**	

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11358Z **Schedule SE (Form 1040) 2012**

Figure 8: Self-employment tax is paid in addition to federal income and state property taxes.

ESTIMATED TAXES

Regular employees get a portion of their taxes deducted from their paychecks every pay period. If you are a sole proprietor or a partner, the government also wants some of your money on a regular basis. Therefore, you must make estimated tax payments every quarter. The payments are due January 15, April 15, June 15, and September 15.

How to Estimate Your Taxes. There are several ways to estimate your taxes. The simplest way to avoid penalties and pay what you owe is to base your estimates on the previous year's tax. Divide your last year's total tax by four and pay at least that much in estimated taxes each quarter of the present year. There are other methods you can use to estimate taxes, but they are so complicated you may need professional advice to use them.

DEDUCTIONS

As a business owner, you are entitled to deductions for the expense of operating your business. You can claim two kinds of deductions: expenses for maintaining a home office, and regular business deductions.

Home Office Deductions. If you plan to set up a home office and want to claim it as a deduction, your home office must qualify as such according to IRS rules. The IRS has two basic criteria your home office must meet to qualify: exclusive and regular use, and principal place of business.

Exclusive use means that your home office must be used exclusively and regularly for business and nothing else. The office does not have to be a separate room, but it must be a separate and identifiable place. You can use a breakfast nook or a section of your family room for business, but it must be very clear that it is a separate place for your business and nothing else.

Regular use means that you use the space daily for so many hours a week. If you do not use the area regularly, the IRS may regard it as "incidental or occasional use" and disallow your deduction.

The second criterion requires your office to be used as your principal place of business or as a place used by your clients in the normal course of business. For example, if you have a regular job in addition to your home business or if you work in more than one location as part of your home business, to qualify you must spend a significant portion of your time in your home office. If you work at home four days a week and one day at an outside job, your home is your principal place of business. But if it is the other way around, your home office may not qualify. However, even if your home office is not your principal place of business, you can deduct home office expenses if, in the normal course of your work, you see clients at home.

Publication	Description
Publication 15	Publication 15, (Circular E), Employer's Tax Guide
Publication 334	Tax Guide for Small Business (For Individuals Who Use Schedule C or C-EZ)
Publication 463	Travel, Entertainment, Gift, and Car Expenses
Publication 505	Tax Withholding and Estimated Tax
Publication 531	Reporting Tip Income
Publication 535	Business Expenses
Publication 547	Casualties, Disasters, and Thefts (Business and Nonbusiness)
Publication 560	Retirement Plans for Small Business (SEP, SIMPLE, and Qualified Plans)
Publication 583	Starting a Business and Keeping Records
Publication 587	Business Use of Your Home (Including Use by Day-Care Providers)
Publication 598	Tax on Unrelated Business Income of Exempt Organizations
Publication 946	How to Depreciate Property
Publication 1635	Understanding Your EIN - Employer Identification Numbers. This publication is designed to educate the public about the Employer Identification Number (EIN). It explains what an EIN is, how to know if you need one for your business and provides application criteria.
Publication 1779	Independent Contractor or Employee

***Figure 9**: Publications are available from the IRS to help determine what documents are needed and when/how to file your taxes properly.*

REGULAR BUSINESS EXPENSES

All legitimate business expenses are deductible when computing your taxable income, as long as they meet three basic roles.

1. **The expenses must be incurred in connection with your business.**

   This means just what it implies: the expense must be an actual business (not personal) expense. Taking a client out for lunch to discuss business is an expense incurred in connection with your business. But just going out to eat while you are working at a client's office is not a business expense.

There are some expenses that are both personal and business. The most common example is your car. The IRS allows you to divide your auto expenses into personal and business expenses and to deduct the business portion. If you plan to claim your car as a business expense, you should keep a mileage log.

2. **The expenses must be "ordinary and necessary."**

   "Ordinary" and "necessary" refer to expenses common to your type of business. Photocopying is a common expense for self-employed people. Buying paints, canvases, and sable brushes is not.

3. **The expenses must be reasonable.**

   Obviously, "reasonable" is not an exact term, and the IRS makes certain judgments about what is and is not reasonable. If your business only grosses $5,000 a year but you claim $100 lunches with clients every week, your claim is going to raise some eyebrows at the IRS.

There are as many types of business expenses as there are businesses. For example, listed below are some of the common deductible expenses listed by the IRS on Schedule C:

- Advertising
- Automobile expenses
- Business licenses
- Depreciation
- Dues and publications
- Utilities
- Postage
- Office expenses
- Supplies
- Travel, meals, and entertainment

We will not discuss every possible deduction in this lesson. A tax specialist can help you deduct every legitimate expense.

KEEPING RECORDS FOR TAX PURPOSES

The IRS does not prescribe any specific accounting records or documentation. But you need to keep careful records to comply with tax regulations, to show proof of tax deductions, and to show values of assets in case of an insurance claim after a loss. The information you need for tax purposes includes the following records of income items and deductions:

1. Federal income statements (supplied to you by your clients)
2. Auto mileage logs
3. Business expense receipts
4. Office expense receipts
5. Documentation of your business equipment for potential insurance claims

How long should you keep your records? At least three years for most records. Many accountants recommend a longer period — five years or the life of the business for documents such as a partnership agreement or articles of incorporation. But record keeping for tax purposes is just one aspect of overall business accounting and record keeping.



***Figure 10**: Keeping careful tax and accounting records is important in protecting yourself in case of an audit and allows you to plan for the future.*

HOW TO AVOID AN AUDIT

Although the vast majority of businesspeople do not get audited, many worry about it. The IRS audits less than 2% of all returns. Yet many people are unnecessarily afraid to claim legitimate deductions for fear of triggering an audit.

The IRS checks all tax returns for mistakes in arithmetic. If you have made an error, you will be notified. An error is just that — it will not increase your chances of being audited.

Knowing the tax laws and keeping complete records are the best ways to avoid an audit and to protect your business if you are audited.

Never throw receipts away. Keep bank statements and canceled checks for several years. Keep all your records up-to-date. If you do not understand the tax regulations — and very few people do — get help from a CPA.

SELF-TEST QUESTIONS

Please check your answers on page 24.

21. *True or False*. **If you make a mistake on your tax return, you will automatically get audited by the IRS.**
22. **How long should you keep your business records?**
23. **According to the IRS, what are the two criteria a home office must meet to qualify as a home office?**
24. *True or False*. **All sole proprietors, partners, and independent contractors must pay social security taxes, just like employees.**

Where to Go for Help

As we have said before, planning is the single most important factor in the success of a new business. Where can you go to get help planning your business? Here are some suggestions.

SBA: The U.S. Small Business Administration (SBA) is an independent agency of the federal government that provides aid, counseling, assistance, and protection to the interests of small business concerns. SBA provides free individual face-to-face and internet counseling to help you manage your business from start to finish, expand your business through new programs and services, increase your business knowledge and productivity, and support your business through administering loan guaranty programs. Your local SBA can assist you in starting a business in your state and make you aware of local laws and ordinances that may only apply to your city or state.

To find out more about SBA, visit its website at www.sba.gov, call toll-free at 1-800-827-5722, or write:

US Small Business Administration
409 3rd Street, SW
Washington DC 20416

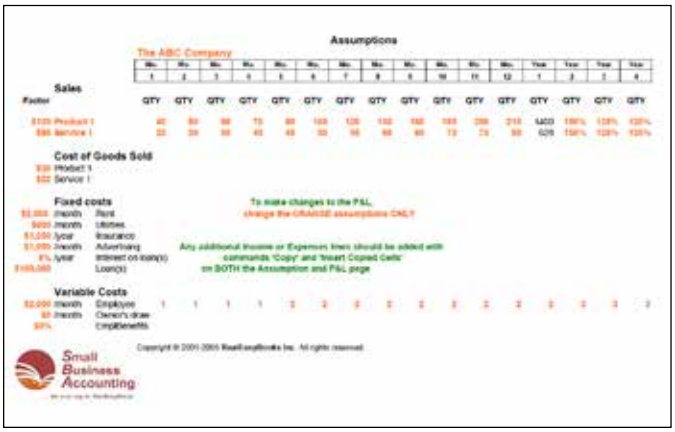


Figure 11: SCORE offers handy templates and tools to help you in your business planning.

SCORE: The Service Corps of Retired Executives (SCORE) is a group of experienced businesspeople who help draft business plans and lend free advice on everything from incorporation to marketing strategies. Score offers information on a myriad of topics from *Advertising Your Business Using Social Media,* to *Cash Flow Projection*. Their website offers templates and tools to help your business grow and stay growing. Contact the U.S. Department of Commerce in the U.S. Government listings of your local phone book for more information on SCORE programs in your area, or visit the SCORE website at www.score.org

The National Federation of Independent Business (NFIB): NFIB is a small business advocacy association representing small and independent businesses in Washington and all 50 state capitals. Its mission is to promote and protect the rights of its members to own, operate, and grow their businesses. NFIB also helps its members to be competitive in the marketplace by pooling the purchasing power of its members by giving them access to many business products and services at discounted costs. NFIB provides timely information designed to help small businesses succeed. For information, visit the NFIB website at www.nfib.com or call 1-800-NFIB-NOW.

Small business cooperatives around the country offer shared low-rent office space and shared secretarial, copying, and fax services. The centers are often sponsored by universities, nonprofit associations, and state or local governments.

Many universities and community colleges offer seminars and lectures in small business management to assist start-up companies with finances, marketing, and contracting. Lectures and seminars include subjects such as how to start a business, where to get capital, and how to prepare taxes.

A Certified Public Accountant (CPA) or tax attorney who specializes in small businesses is a good place to start when beginning your new business. A tax advisor experienced with small businesses can help you set up your record-keeping system now and help you take advantage of all possible tax deductions.

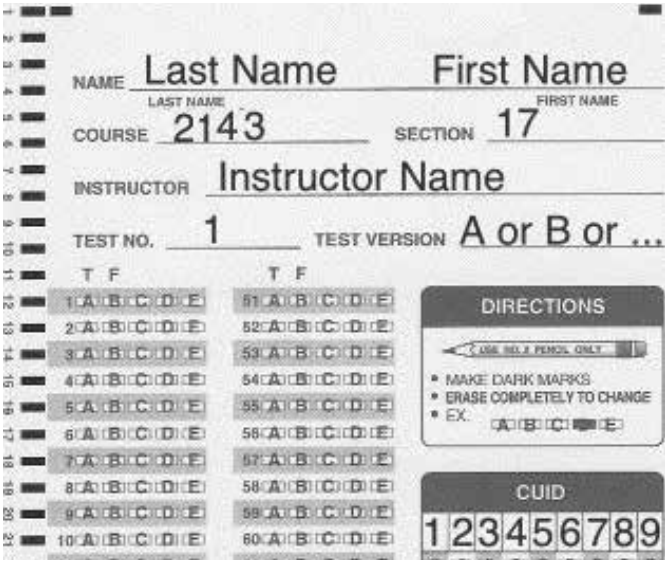
Answers to Self-Test Questions

1. Inadequate research and planning is the main cause of new business failure.
2. Names at the beginning of the alphabet have prime positions in the phone book and business directories, so they have a clear advantage.
3. Your start-up costs will include office equipment like a computer and software, telephone answering system, cell phone, filing cabinet, chair and desk, bookcases and shelving.
4. The advantages of a commercial bank account include getting your business name and logo printed on checks and easier expense record keeping.
5. Sources of funding include your own money and loans from family and friends, investors, banks, and the SBA.
6. Some ways to avoid cash-flow problems: have an adequate cash reserve, offer discounts to customers who pay ahead of time, get advances for buying supplies, and charge expenses and pay charge bills close to deadlines.
7. True. Most companies do not cover damage from "acts of God" such as hurricanes, floods, and hail.
8. Comprehensive liability insurance covers accidental injury, damage to another's property, and accusations of libel or slander.
9. Every business needs a business license to operate legally.
10. A seller's permit, or resale certificate, is needed if a business sells products to the public.
11. A corporation is the only business structure that requires legal action to establish.
12. In a sole proprietorship, you and the business are considered one and the same in legal terms.
13. A partnership is an association of two or more people formed to operate a business for profit.
14. A sole proprietorship is the simplest business structure to establish.
15. False. Making a mistake on your tax return does not automatically mean you will be audited by the IRS.
16. You should keep most records for at least three years. Many accountants recommend keeping some records for five years and some records for the life of the company.
17. According to the IRS, the two criteria your home office must meet to qualify as a home office are exclusive use and principal place of business.
18. True. All sole proprietors, partners, and independent contractors must pay social security taxes, just like employees.

Lesson Questions

THIS IS LESSON NUMBER 2204.

Make sure you print your name, student number, and lesson number in the space provided on the Lesson Answer Form. Be sure to fill in the circles beneath your student number. Code the lesson number as shown at the right.



REMINDER: A properly completed Lesson Answer Form allows us to evaluate your answers and send the results and additional study material to you. Do not hold your Lesson Answer Forms to send several at one time. You may run out of study material if you do not send your answers for evaluation promptly.

You may also complete your exam online at www.sdi.edu, click on the *online exams* tab.

1. **What is one good way to avoid cash-flow problems?**
   a. Minimize what others owe you.
   b. Refuse partial payments from clients when you start a project.
   c. Pay bills early.
   d. Pay up front for all supplies.

2. **What is the best source of financing for your business?**
   a. Yourself.
   b. Family members.
   c. Banks.
   d. Credit cards.

3. **Which of the following is not an operating expense?**
   a. Advertising.
   b. Office furnishings.
   c. Entertainment costs.
   d. Utilities.

4. **Which of the following is social security tax for self-employed individuals?**
   a. Estimated taxes.
   b. Business license tax.
   c. Self-employment tax.
   d. Personal property tax.

5. **Why should you register your business name?**
   a. For tax purposes.
   b. To find out if someone else is using it.
   c. To save money.
   d. To get word-of-mouth advertising.

6. **The document that permits a business to operate is called a**
   a. Seller's permit.
   b. Resale certificate.
   c. Business license.
   d. Trade name registration.

7. **The only type of business structure that is recognized as a legal entity is a**
   a. Limited partnership.
   b. Sole proprietorship.
   c. Corporation.
   d. Partnership.

8. **A corporation taxed like a partnership is a**
   a. Limited partnership.
   b. Joint venture.
   c. Sole proprietorship.
   d. Subchapter S Corporation.

9. ***True or False*. Organized record keeping will help protect your business in case of an audit by the IRS.**
   a. True.
   b. False.

10. Taking a client out for lunch to discuss a project you are working on for him or her is

a. Deductible personal expense.

b. Nondeductible entertainment expense.

c. Deductible regular business expense.

d. Nondeductible unreasonable expense.