

1) Choosing A Legal Business Structure

You have several options for the legal structure of your business.

A written agreement reviewed by an attorney is essential.

Here's an overview:

Sole proprietorship: In this form of doing business, one person (you) owns and operates the business. On the plus side, your business earnings are taxed just once, and you alone are in charge of all business decisions. On the downside, sole proprietors are personally liable for any claims against their businesses, and often have more trouble getting financing. Many businesses start out as sole proprietorships, and then switch to more complex structures.

Partnership: In a general partnership, both partners manage the business and are responsible for its debts. In a limited partnership, certain (limited) partners are investors but do not manage the business. One advantage of partnerships: The partnership doesn't pay tax; partners report profits or losses on their personal tax returns. The disadvantage: Partners are personally liable for any debts of the business.

"C" Corporation (conventional): Incorporating protects you from liability for the company's debts or claims against it. A corporation can sell stock, enabling you to raise money. However, corporations are strictly regulated and are taxed twice—the corporation pays income tax, and shareholders pay taxes on any dividends.

"S" Corporation (subchapter): An S Corporation protects owners against liability and provides more tax benefits than a corporation. The corporation doesn't pay federal income taxes; profits and losses are reported on shareholders' individual tax returns. But complying with regulations can be costly and time-consuming, and you're limited to a set amount of shareholders, which may be restrictive if you're seeking to raise lots of capital.

Limited Liability Company (LLC): An LLC offers liability protection like a corporation, but without double taxation because earnings and losses are reported on the owners' personal taxes. There is no limit on the number of members. Owners or members in a multiple-member LLC should have a written membership agreement reviewed by an attorney.

Always discuss your legal options with your attorney and accountant before making a decision.



LAUNCHING YOUR NEW BUSINESS

2) Government Regulations And Your Business

To keep your new business on the right side of the law, understand the government regulations you must comply with.

Business registration, licenses and zoning approval: All businesses need to be registered either in the state where they will be doing business (LLCs and corporations) or their county of residence (sole proprietors). Wherever registered, the company needs a physical address (not a P.O. Box). Depending upon the nature of the business, some companies also need to obtain state, county and/or municipal licenses. Contact your city and county for more information, and discuss your legal options with your attorney.

Labor laws: If you hire employees, you need to comply with state and federal labor laws regulating work hours, breaks, safety and many other factors.

IRS and social security withholding and payments: Even if the only person you pay is yourself, you are considered an “employer.” You must follow Internal Revenue Service (IRS), state and local guidelines for mandatory withholdings (taxes, Social Security, etc.), and either use a payroll service or set up bank accounts to deposit those funds.



3) Insuring Your Business

It may not be the first thing you think about when starting a business, but if you don't purchase proper insurance, all your hard work could disappear in the blink of an eye. Consult an insurance broker to determine what types of insurance you need. These may include:

Property: Covers fire and other loss to buildings, building contents, inventory and home-based businesses. Add-ons such as business interruption insurance can expand this coverage.

Liability: Covers bodily injury and property damage to others caused by accidents on your property, such as if a customer slips and falls at your place of business. .

Motor vehicle: Covers bodily injury and property damage resulting from the business use of your motor vehicles, such as if an employee drives a company van to make deliveries.

Umbrella liability: Provides additional liability insurance above the limits in your basic automobile and general liability policies.

Worker's compensation: Covers injuries, death and loss of wages to workers injured on the job, including the owner, and protects you against employee lawsuits for damages

Health: If you rely on your current job to receive health insurance, you'll need to look into private health insurance options before starting your business.

Life: Many business partners buy “key man” life insurance on the partners in the business. If one owner dies, the proceeds enable the surviving partners to buy his or her share from the heirs.