Why do you want to start a business?
The decision of starting or buying a business can be overwhelming. As a first step, you may want to give some thought to your reasons for wanting to strike out on your own.

In addition, your personal characteristics, along with the skills and knowledge you possess can be telling signs of your chances of success.

With careful planning at the outset, you can head off many potential problems down the road.

Ask yourself why do you want to start a business?
The reasoning should be that you are working toward success with a product or service to meet a need in the marketplace.

If your reasoning is to run from a job you do not like, you may not have the wherewithal to put in the time and effort it takes to succeed.

Do you have the drive and commitment to put in the hours it takes? You may find yourself working more hours than you are at your current employer.

Are you prepared, if needed, to adjust your standard of living as your business gets off the ground? Having some savings to live off of, at least temporarily, can ease the money crunch as your business grows.

Perhaps the most important question to ask yourself is whether or not your idea is feasible, is there market demand for the product or service?

If the answer is not yes, you may want to go down another path. Don’t be blinded by your dream, but keep it grounded.

Who is your team of advisors?
There are many strategic and implementation challenges to think about when starting a business. The process is complex, time consuming and significant expertise and resources are required.

An organized, team approach to starting your business will minimize the chance that details are overlooked or not handled properly.

Realizing that experts are available to assist you, can lead to less stress and in the end, potential cost savings. An attorney, accountant, insurance professional and banker are some key advisors you may find beneficial to identify and engage to help you.

You want advisors that you can trust and who will give you honest feedback. These advisors can help identify and provide guidance on the issues you need to address as you not only start your business, but also grow it over time.
Have you considered your structure?

One of the first decisions you will make is to determine the appropriate type of business entity. A number of entity structures are available from which to choose such as C Corporation, Subchapter S Corporation, partnership and sole proprietorship. A Limited Liability Corporation is also an option which is a legal entity, but can take on different forms for tax treatment (i.e., partnership or sole proprietorship).

When choosing which is most appropriate for your business, consider legal, tax and management implications, such as:

- Legal liability
- Continuity of entity
- Transfer of interest
- Class of stock/shareholders
- Financing/acquisition of capital
- Year end (date) options
- Tax filing required
- Taxation of income
- Administrative & legal costs
- Fringe benefits
- Recommended retirement plans
- Major advantages
- Major disadvantages

For more detailed information, please see the Business Entity Structures chart and the Advantages & Disadvantages of Business Entities section.

What are your next steps?

Outside of developing the business plan, there are administrative tasks to consider when starting a business. Sometimes these tasks are overlooked in the bigger picture, and yet they are important to a smooth operation.

These administrative tasks include points such as:

- Determine how business will be managed on a daily basis
- Obtain appropriate type and level of insurance coverage
- Understand the permits, licenses and ordinances that impact your business
- Establish a system of record keeping for all cash receipts, cash disbursements, contracts and other important documents
- Develop or obtain business cards, stationery and other forms necessary such as invoices
- Contact the phone company, and other applicable utilities, for service
- Determine who will assist with the accounting/bookkeeping function
- Engage in tax planning up-front so tax compliance is handled appropriately throughout the year

Don’t be afraid of the details to cover in starting a business. A ‘Business Start-Up Checklist’ can be found on the following pages to help you as you begin the process.

RubinBrown can assist you in understanding general start-up issues and perhaps give you insight into those unique factors of your business.

Planning, using business advisors who have a track record of helping emerging businesses, being organized and efficiently using available resources are your best tools to get your business off to a strong start.

Although prepared by professionals, the contents of this publication should not be construed as the rendering of advice regarding specific situations. If accounting, legal or other expert assistance is needed, please consult with your professional business advisor.
# Business Entity Structures

<table>
<thead>
<tr>
<th>Filing Required Under State Law</th>
<th>Sole Proprietorship</th>
<th>Partnership</th>
<th>Limited Liability Corporation</th>
<th>S Corporation</th>
<th>C Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>Varies, filing not required in most states</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organizational Documents</th>
<th>None</th>
<th>Partnership Agreement</th>
<th>Articles of Organization, Operating Agreement</th>
<th>Articles of Incorporation, bylaws, etc.</th>
<th>Articles of Incorporation, bylaws, etc.</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Liability</th>
<th>Owners can be 100% liable</th>
<th>General partner can be 100% liable</th>
<th>Corporation is liable, except for withholding taxes and personal guarantees</th>
<th>Corporation is liable, except for withholding taxes and personal guarantees</th>
<th>Corporation is liable, except for withholding taxes and personal guarantees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Limited partners generally liable only to the extent of their investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Shareholders</th>
<th>None</th>
<th>Need at least two partners</th>
<th>Requires a minimum of a single member</th>
<th>Limited to 100 shareholders (spouses are treated as one shareholder)</th>
<th>Unlimited</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Classes of Owners</th>
<th>None</th>
<th>Several classes – Common (stock) or Preferred</th>
<th>One class of stock, with limitations on the types of shareholders; cannot have non-U.S. residents as shareholders</th>
<th>Several classes – Common (stock) or Preferred</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Transfer of Interest</th>
<th>Assets sold</th>
<th>Generally, no; may be limited by buy/sell provisions in partnership agreement or separate agreement</th>
<th>Generally, no; may be limited by buy/sell agreement</th>
<th>Yes, but stock ownership must be monitored; also may be limited by a buy/sell agreement</th>
<th>Yes</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Death of an Owner</th>
<th>Entity terminates</th>
<th>Entity terminates if death causes a 50% or more change</th>
<th>Articles of Organizations may require consent of remaining members in order to continue entity</th>
<th>Company continues, but may require consent of remaining members to continue entity</th>
<th>Company continues</th>
</tr>
</thead>
</table>
## Business Entity Structures

<table>
<thead>
<tr>
<th></th>
<th>Sole Proprietorship</th>
<th>Partnership</th>
<th>Limited Liability Corporation</th>
<th>S Corporation</th>
<th>C Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stock Options</strong></td>
<td>No</td>
<td></td>
<td>Consult with accountant</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Required Tax Elections</strong></td>
<td>None</td>
<td>None</td>
<td>None</td>
<td>Yes</td>
<td>None</td>
</tr>
<tr>
<td><strong>Ability to Select Tax Year</strong></td>
<td>Calendar year, unless a business purpose supports a fiscal year end</td>
<td>Calendar year, unless a business purpose supports a fiscal year end</td>
<td>Limited</td>
<td>Limited, unless a service corporation business purpose supports a fiscal year end</td>
<td>No restrictions</td>
</tr>
<tr>
<td><strong>Tax treatment of fringe benefits for owners</strong></td>
<td>Poor</td>
<td>Poor</td>
<td>Poor</td>
<td>Poor, if own more than 2% of stock</td>
<td>Good</td>
</tr>
<tr>
<td><strong>Tax on Income</strong></td>
<td>Flows through to individual tax return, whether taken or not</td>
<td>Flows through to individual tax return, whether taken or not</td>
<td>Flows through to individual tax return, whether taken or not</td>
<td>Flows through to individual tax return, whether taken or not, based on proportionate ownership interest</td>
<td>Corporate tax rates, shareholders also taxed on dividends</td>
</tr>
<tr>
<td><strong>Operating Losses</strong></td>
<td>Deductible</td>
<td>Deductible</td>
<td>Deductible</td>
<td>Deductible, subject to legal limitations (such as owner’s basis)</td>
<td>Generally carried back two years and forward twenty</td>
</tr>
<tr>
<td><strong>Passive Loss Rules Apply</strong></td>
<td>Yes</td>
<td>Yes, at partner level; treatment of limited partners is unfavorable</td>
<td>Yes, at member level; unclear if members treated as limited partners</td>
<td>Yes, at shareholder level</td>
<td>No, unless a PSC or closely held corporation</td>
</tr>
<tr>
<td></td>
<td>Sole Proprietorship</td>
<td>Partnership</td>
<td>Limited Liability Corporation</td>
<td>S Corporation</td>
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<tr>
<td>-----------------------------------------------</td>
<td>---------------------</td>
<td>-------------</td>
<td>--------------------------------</td>
<td>---------------</td>
<td>--------------</td>
</tr>
<tr>
<td><strong>Favorable Tax Rate on Long-Term Capital Gains</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td><strong>Unreasonable Owner Compensation Issue Applies</strong></td>
<td>No</td>
<td>No</td>
<td>No, unless the partnership has a C corporation partner, maintains inventories or is a “tax shelter” (However, if a gross receipts test is met, the cash may be used even if inventories are maintained)</td>
<td>Yes, for unreasonably low compensation</td>
<td>Yes, for unreasonably high compensation</td>
</tr>
<tr>
<td><strong>Limitations on Use of Cash Method</strong></td>
<td>No</td>
<td>No, unless the partnership has a C corporation partner, maintains inventories or is a “tax shelter” (However, if a gross receipts test is met, the cash may be used even if inventories are maintained)</td>
<td>No, unless the LLC has a C corporation partner, maintains inventories or is a “tax shelter” (However, if a gross receipts test is met, the cash may be used even if inventories are maintained)</td>
<td>No, unless the corporation maintains inventories or is a “tax shelter” (However, if a gross receipts test is met, the cash method may be used even if inventories are maintained)</td>
<td>Yes, but smaller corporations and PSCs can use cash method</td>
</tr>
<tr>
<td><strong>Flexibility to Make Tax-Free Contributions and Distributions</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes, but it has to be pro-rata</td>
<td>No</td>
</tr>
<tr>
<td><strong>Ability to Make Special Tax Allocations Among Owners</strong></td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td><strong>Ability to Shift Entity Income Among Family Member Owners</strong></td>
<td>Yes, by employing family members</td>
<td>Yes, within limits of family partnership rules</td>
<td>Yes within limits of family partnership rules</td>
<td>To a degree, by manipulating wages of employee-owners</td>
<td>No</td>
</tr>
</tbody>
</table>
Advantages & Disadvantages of Business Entities

**Sole Proprietorship**
One individual owner of the business

**Advantages**
- One level of taxation
- Simplicity – accounting and tax

**Disadvantages**
- Unlimited liability – Owner holds title to property, conducts business for profit and is directly and personally liable for all obligations of the business. Owner’s personal assets can be seized to satisfy debts of the proprietorship
- Limited sources of capital (i.e., harder to expand)

**General Partnership**
Associations of two or more persons as co-owners to carry on a business for profit

**Advantages**
- One level of taxation
- No “disqualifying” restrictions placed on ownership
- Great deal of flexibility

**Disadvantages**
- All partners have unlimited liability
- If tax is owed, must be paid regardless if cash paid out by partnership or not
Limited Partnership  
- Similar to general partnerships, except that one or more of the partners have limited participation in the venture’s risk  
- This entity form is a legal device that enables limited partners to be passive investors in a partnership, normally limits their liability to the extent of their investment, and enables other (general) partners to manage and control day-to-day operations  
- A general partner’s assets can be seized to satisfy debts of the limited partnership  
- State laws required formal registration to protect limited liability status  

Advantages  
- One level of taxation  
- Limited liability for limited partners  

Disadvantages  
- Must be at least one general partner  
- Limited partners cannot participate in management, or else lose limited liability status  
- If tax is owed, must be paid regardless if cash paid out by partnership or not  

Limited Liability Corporation  
- Combine tax advantages of partnership with liability and flexibility of a corporation  

Advantages  
- Limited liability for all members  
- Can actively participate in management  
- Few “disqualifying” restrictions placed on ownership (no type of entity or quantity of owner limits)  
- Treated as flow-through for tax purposes  

Disadvantages  
- LLC members cannot freely transfer interests  
- Members taxed on income regardless if cash is actually paid out  

S Corporation  
- Hybrid between a partnership (taxation) and a C corporation (formation)  
- Great structure for small businesses  

Advantages  
- One level of taxation  
- Conversion to/from other entity types  
  - Relatively easy to convert to C corporation  
  - Generally tax-free to convert from C corporation to S corporation (except LIFO recapture)  

Disadvantages  
- Some states may not recognize S corporations  
- Shareholders taxed on S corporation income regardless if cash is distributed or not  
- Restrictions on ownership (e.g., 100 shareholders or less, generally only individuals, no foreign shareholders)  
- Only one class of stock  

C Corporation  
- Business entities created under state law  
- Exists independently of its shareholders  
- Characterized as artificial persons created for the purpose of conducting business. As such, they can hire employees, enter into contracts, acquire assets and incur liabilities.  
- A very important feature is they generally enable their owners (shareholders) to limit their liability to the extent of their investment in the corporation.  

Advantages  
- Continuity of life  
- Centralized management  
- Limited liability of owners  
- Free transferability of interests  

Disadvantages  
- Double taxation – corporate and shareholder level  
- May be subject to additional taxes  
- Liquidation or conversion to pass-through entities may result in heavy tax burden
Business Plan Outline

Depending upon your company’s size and vision, you may want to consider utilizing some variation of these components of a typical business plan:

Executive Summary

Business Background

Business Overview
- Vision statement
- Mission statement
- Corporate values
- Business goals and objectives
- Business strategy and keys to success
- Risk management, business continuity and succession planning
- Preview exit strategy

Organizational Structure & Management
- Legal structure
- Ownership
- Key management
- Key operations employees
- Core organizational competencies
- Board of Directors (Advisors)

Business Environment
- Industry overview
- Competition
- Market segments
- Market share
- Competitive advantage
- New technologies
- Market trends
- Regulatory requirements

Products & Services
- Descriptions of products/services offered
- Copyrights, patents and trademarks
- Pricing
- Benefits
- Packaging and labeling
- Distribution channel(s)

Marketing & Sales
- Target market
- Market positioning
- Brand strategy
- Promotional plan
- Sales forecast

Operational Plan
- Facilities
- Technology
- Furniture and equipment
- Human resources
- Order placement and fulfillment/delivery
- Research and development activities
- Key suppliers/vendors

Financial Data & Strategies
- Current funding requirements (for the first year)
- Funding requirements over next five years (operating and capital budgets)
- Funding/financial sources
- Long-range financial strategies
- Historical financial data (if applicable)
- Financial projections for first five years
- Financial analysis
Business Start-Up Checklist

Business Entity
- Determine choice of business entity structure
- Prepare appropriate Articles of Incorporation/Operating Agreement/Partnership Agreement based on entity
- File appropriate documents with state authorities

Financial & Accounting Operations
- Prepare cash flow projection and monitor regularly
- Compare in-house vs. outsourcing of accounting function
- Determine system needs and consider purchase of an accounting package (i.e. cloud solutions or hosted environments)
- Establish a banking relationship, including open a checking account using business name and federal identification number
  - Obtain checks
  - Arrange for online payments/deposits
- Determine acceptable methods of payment
  - Establish lock box, credit card machine, etc.
- Develop internal controls and accounting policies
- Determine method of accounting (cash or accrual)
- Establish chart of accounts and financial statement format
- Establish record retention policy, including back up procedures
  - Keep a record of all organizational documents, contracts/agreements, invoices, receipts, etc.
  - Maintain storage location for records
- Determine need for externally prepared financial statements

Tax Planning & Compliance
- File for federal Employer Identification Number (EIN) (Form SS-4). An EIN is needed if:
  - have employees
  - have a qualified retirement plan
  - operate the business as a corporation or partnership
  - file returns for employment taxes or excise taxes
- File for state withholding
- File for state unemployment number
- File for state sales/use tax number
- File for local/city withholding number
- Notify county or city where located and obtain necessary business licenses
- Gain familiarity with tax implications of business decisions, e.g., automobile usage, deductibility of business expenses, etc.
- Understand forms of business taxes (applicable to your form of business) and associated tax filing deadlines
  - Income tax:
  - Self-employment tax:
  - Employment taxes:
  - Excise taxes:
  - Property:
- Determine who will file:
  - Federal tax return:
  - State & local tax returns:
  - Sales/use tax returns:
  - Payroll tax returns:
Business Start-Up Checklist (continued)

Additional Start-Up Procedures
- Notify phone company, giving them name of the company and arrange for any advertising
- Prepare invoices and/or statements
- Print stationary and business cards
- Notify utilities for proper billing
- Determine other marketing efforts
  - Local newspaper
  - Mass marketing to community, etc.
- Order supplies
  - Choose suppliers
  - Set up inventory system
  - Storage location

Business Insurance Coverage
- Health & other employee benefits
- Fidelity bond
- Sales tax bond
- Disability
- Workmen's compensation
- Fire & extended coverage
- General liability
- Property
- Product liability (if appropriate)
- Inventory coverage
- Group term life
- Key person life
- Business interruption (if appropriate)

Human Resources
- Determine employee compensation
  - Wage (ranges) for positions
  - Exempt and nonexempt rules
  - Process for annual salary review
  - Bonus/incentives
- Determine what, if any, employee benefits to offer:
  - Health insurance
  - Cafeteria plan (Section 125)
  - Disability insurance
  - Life insurance
  - 401(k)/retirement plans
  - Profit sharing/bonus plan
  - Vacation/sick leave
  - Employee discounts
- Develop performance management process
  - Performance expectations
  - Goals setting and measurement
  - Communication of results
  - Evaluation process
- Develop employee (personnel) manual
- Develop recruiting & interviewing process
  - Job posting and resume accumulation
  - Selection and interview process
  - Application completion
  - Psychological and drug testing
  - Campus recruiting
- Develop employee communication plan
- Plan for training & continuing education
- Create separation & non-compete agreements
- Maintain employee personnel files
- Understand government acts related to employment
  - Fair Labor Standards Act (FLSA)
  - Age Discrimination in Employment Act (ADEA)
  - Americans with Disabilities Act (ADA)
  - Family and Medical Leave Act (FMLA)
  - Occupational Health and Safety Act (OSHA)
  - Health Insurance Portability & Accountability Act (HIPAA)
  - Immigration Reform Control Act
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Founded in 1952, RubinBrown LLP is one of the nation’s leading accounting and professional consulting firms. The RubinBrown name and reputation are synonymous with experience, integrity and value. RubinBrown provides many services that are grounded in professional vision and understanding of our clients’ goals:

- Assurance
- Benefit Plan Audits
- Business Advisory
- Business Improvement
- Business Reorganization & Financial Restructuring
- Cyber Security
- Enterprise Risk Management
- Entrepreneurial Services
- Fraud & Forensics
- Information Technology Risk
- Information Technology Services
- Litigation
- Mergers & Acquisitions
- Public Company & Capital Formation
- Research & Experimentation
- Tax Credit
- Risk Services
- State & Local Tax
- Tax Compliance & Consulting
- Valuation
- Wealth Advisory

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- Colleges & Universities
- Construction
- Gaming
- Healthcare
- Law Firms
- Life Sciences & Technology
- Manufacturing & Distribution
- Not-For-Profit
- Private Equity
- Public Sector
- Real Estate
- Transportation & Dealerships

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E-Focus Newsletters
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Guides and Statistical Analysis
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