

# **A Guide To Starting a New Business**

The Purpose of this guide is to provide basic information regarding starting a new business, and to provide sources of additional information.

## **Business Legal Structure**

One of the first decisions you must make about a new business is what form of structure or organization you want to use. The choices available are:

### **Sole Proprietorship**

This is the simplest and easiest structure to set up and to operate. A sole proprietor has unlimited personal liability for debts and claims against the business. To protect your personal assets against liability, have general liability insurance coverage for the business.

### **Partnership**

Two or more owners of the business can form a partnership. A General Partnership is one where all the partners participate in managing the business. General Partners, like a sole proprietor, have unlimited personal liability for debts and claims against the business. In a Limited Partnership, general partners manage the business and limited partners, who are merely investors, do not participate in management. The liability of limited partners is limited to the extent of their investment in the business. A partnership does not pay income tax. It files with the IRS an information return, form 1065, which reports on Schedule K-1 the amount of money each partner received from the partnership. The partners pay personal income tax on this amount. This is called flow-through taxation, because the taxes flow through the partnership directly to each partner.

### **Corporations**

In a corporation, the shareholders, who are the owners, have limited personal liability for debts and for claims made against it, to the extent of their investment in the company. A C-corporation pays net income tax, resulting in undesirable double taxation. An S-corporation has flow-through taxation like a partnership, which avoids the double taxation of a C-Corporation. There are restrictions imposed by the IRS on the number and type of shareholders an S-corporation may have. Both a C-Corp. and a S-Corp. must observe certain complicated corporate formalities. For more information, see the reference document titled *Forming a Corporation* on this site.

### **Limited Liability Company (LLC)**

A LLC provides the advantages of flow-through taxation, like a partnership and a S-Corporation, and provides the same degree of protection of limited personal liability to its members as a C-Corp. or a S-Corp., without the need to observe cumbersome corporate formalities. For additional information, see the Information Fact Sheet titled *Forming a LLC* on this site.

### **Fictitious Name**

A business operating under a Fictitious Business Name must register that name with the Corporations Bureau of the Pennsylvania Department of State. A business name containing the family name (surname) of the owner is NOT a fictitious name, and does not have to be registered. Additional information about Business Structures, Fictitious Name registration, and the forms used for filing, are available on the State's website: [www.paopen4business.state.pa.us](http://www.paopen4business.state.pa.us), and also as another reference document in this site.

A **SCORE** counselor can help you organize your business and form an appropriate legal structure for it.

### **Business Plan**

One of the most important things to do when starting a new business is to prepare a written business plan. Some people starting new businesses are too busy running the business to take the time to plan the business. Don't make this mistake. A business plan serves several purposes. Internally, it is an excellent management tool, providing a road map for where the business wants to go, and how it will get there. Externally, it is necessary in order to obtain financing for your business. Any lender or investor will require you to have a detailed written business plan in order to obtain financing, because it demonstrates that you have come to grips with all the factors that can influence the success or failure of your business.

There is a good guide to preparing a written business plan in the **Entrepreneur's Guide**, published by the Commonwealth of Pennsylvania. This publication is described in a separate section below. Another good source of information regarding business planning is available online at the website of the US Small Business Administration: [www.sba.gov](http://www.sba.gov). There are two reference documents dealing with writing a business plan in greater detail listed elsewhere in this site. These two Information Fact Sheets are each based on a somewhat different format for a business plan. Select the one that is most suitable for your particular business situation.

A **SCORE** counselor can help you prepare a written business plan.

### **Marketing**

A key part of your business plan is the marketing plan. Here you will identify your geographic market area, potential customers, analyze the competition, establish a price for your product or service, plan advertising and promotion, and determine how you will achieve your sales objectives. Important demographic data is available from the Census Bureau website: [www.census.gov](http://www.census.gov). There is a separate Information Fact Sheet dealing with Marketing in greater detail.

A **SCORE** counselor can help you develop a marketing plan.

### **Employees**

The IRS classifies workers as either employees or independent contractors. For an employee, the employer must withhold payroll taxes, and pay them to the IRS.

An independent contractor receives a 1099 form at the end of the year, and pays his own taxes. Because the accounting is much easier with an independent contractor, there is a tendency for some employers to declare the worker to be an independent contractor, when he should really be an employee. The difference is the degree of control that the employer exercises over the worker. The more the employer controls the working hours, places, conditions and methods, the more likely it is that the IRS will consider the worker to be an employee, and require that payroll taxes be withheld. For more information regarding employees and independent contractors, visit the IRS website, [www.irs.gov](http://www.irs.gov), or see the separate reference document on this site titled "*Independent Contractor vs. Employee*". To have the IRS make a determination of whether a particular worker is an employee or an independent contractor, file IRS Form SS-8, which is available on the IRS website.

A **SCORE** counselor can assist you in determining the worker's proper classification and whether withholding payroll taxes or a 1099 are appropriate.

### **Obtaining Financing**

Financing is in the form of either Debt or Equity. Debt financing is a loan, usually from a bank. With equity financing, an investor receives a share of the business. Any lender or equity investor will require you to have a written business plan in order to obtain financing. An important component of the business plan is a Cash Flow Projection. This will show how long it will take for your business to become profitable, and how much money will be required to reach that point. A lender will require security for your loan in the form of collateral. He will want you to provide 20% of the funds required. The bank will only provide 80%. The best place to start to obtain a business loan is the bank where you already have an established account. For additional information regarding financing your business, see the Reference Document titled *Obtaining a Loan* in this site.

### **SBA Loans**

The Small Business Administration (SBA) does not loan money directly to businesses. The bank makes a SBA loan. The SBA guarantees to the bank, that if the borrower defaults on repaying the loan, the SBA will repay up to 85% of the loan amount. If you do not qualify for a conventional loan from your bank, ask for a SBA guaranteed loan. More information about SBA loan programs is available online at the SBA website: [www.sba.gov](http://www.sba.gov). There is a separate reference document dealing with Obtaining a Loan listed separately on this site.

A **SCORE** counselor can help you prepare your loan application.

### **Employer ID Number (EIN)**

The federal tax ID number, issued by the IRS, is called the Employer's Identification Number (EIN). To obtain an EIN, file IRS form SS-4. Information regarding when a EIN is required, and the form SS-4, is available on the IRS website: [www.irs.gov](http://www.irs.gov), and also as another reference document on this site.

A **SCORE** counselor can help you obtain an EIN.

### **State Sales Tax**

If your business will sell merchandise subject to State Sales Tax, it must register with the PA Department of Revenue by filing form PA 100, Enterprise Registration. Information about whether you must file form PA-100, and the form itself, which may be filed online, are available at the State's website: **[www.paopen4business.state.pa.us](http://www.paopen4business.state.pa.us)**, or, phone the PA Department of Revenue: **(724) 832-5283**. There are numerous sections to this form. Most businesses only need to fill out Parts 1 through 9 and 18. The PA-100 is also available as another reference document on this site.

A **SCORE** counselor can help you file form PA-100, Enterprise Registration.

### **Insurance**

Regardless of the type of legal structure you use for your business, general liability insurance coverage is important to have. If you provide advice to your customers, such as being a consultant, this insurance should include "Errors and Omissions" coverage. Property insurance will protect against the loss or damage of your equipment. Keyman life or disability insurance, payable to the company, will help in the event of the death or disability of a key member of your business. For additional information regarding insurance, see the separate reference document titled *Business Insurance* on this site.

### **Home-Based Business**

If your business will be based in your home, there are certain additional factors to consider. Check with your municipality's Zoning or Code Enforcement Officer to determine whether your type of business is permitted by the local zoning ordinance. If you own your home, check with your homeowner's insurance company to see if they will issue an Incidental Business Use Rider to your homeowner's insurance policy, covering your home-based business. Without having such a rider on your policy, your homeowner's insurance will not cover any claim related to your business, such as a customer who slips and falls on your icy sidewalk, or the loss or damage to any business equipment in your home. For additional information, see the Reference Document titled *Home Based Business* on this site.

A **SCORE** counselor can help you set up a home-based business.

### **Entrepreneur's Guide**

The Commonwealth of Pennsylvania provides at no cost an excellent publication covering many aspects of starting a business in Pennsylvania, the *Entrepreneur's Guide*. It contains helpful information on many topics, including writing a business plan, calculating your expenses and start-up costs, and a directory of the various state agencies you may have to deal with. To obtain your free copy of the *Entrepreneur's Guide*, phone toll-free **1-800-280-3801**. It is also available as another reference document on this site.

## SCORE Services

For more information on any topic in this guide, for assistance in starting your new business, or to meet with a counselor, phone Westmoreland **SCORE** at (724) 539-7505. You may also contact us by e-mail at [score@email.stvincent.edu](mailto:score@email.stvincent.edu) or visit our website: [www.scorewestco555.org](http://www.scorewestco555.org).

## Counseling and Mentoring

**SCORE** provides individual mentoring and confidential business counseling to entrepreneurs starting new businesses. Business mentoring and counseling by **SCORE** is totally free and completely confidential. A counselor will be selected from among our 40 volunteer members whose skills and expertise most closely match your particular needs. When appropriate, more than one counselor will participate, in team counseling. Your counselors will meet with you as often as needed to provide you the assistance you may require. Counseling normally is done in person, but at times may also be done by telephone or e-mail.

## Workshops

In addition to counseling we also present workshops six times each year for entrepreneurs starting new businesses. Ask for a workshop schedule. Workshops cover the following subjects, among others:

- The Business Idea
- Market Research
- Protecting the Idea
- Cash Flow Analysis
- Obtaining Financing
- Business Structures
- Business Plan

The Internet is a great source of information to help you start a business. Good websites to visit, beginning with Westmoreland **SCORE** are:

[www.scorewestco555.org](http://www.scorewestco555.org) Westmoreland **SCORE**  
[www.paopen4business.state.pa.us](http://www.paopen4business.state.pa.us) Pennsylvania business website  
[www.score.org](http://www.score.org) **SCORE** national website  
[www.sba.gov](http://www.sba.gov) Small Business Administration  
[www.toolkit.cch.com](http://www.toolkit.cch.com) Business Owner's Toolkit  
[www.business.gov](http://www.business.gov) US Government business website  
[www.entreworld.org](http://www.entreworld.org) Business Plans and more  
[www.irs.gov](http://www.irs.gov) Internal Revenue Service  
[www.firstgov.gov](http://www.firstgov.gov) Gateway portal to all government agencies

## Disclaimer

Westmoreland **SCORE** provides this *Guide to Starting a New Business* as a service to our clients in the hope that it will be helpful to those entrepreneurs who

are starting a new business. This Guide is not intended to be, and it should not be relied upon as a substitute for professional advice provided by lawyers, accountants, bankers or insurance agents. Users of this Guide are encouraged to consult with appropriate professionals, and to obtain counseling from Westmoreland **SCORE**.