

Setting Up a New Business Entity

SMALL BUSINESS ESSENTIALS WEBINAR SERIES

About SCORE

As a resource partner of the SBA, we help small businesses by:



Providing free
business advice
and mentoring



Offering low or
no-cost business
training



Sharing free business
templates and
resources

SCORE's Small Business Essentials Webinar Series

Small Business Startup Task	Planning Activity	Webinar Name	Mentor Meeting
<ul style="list-style-type: none"> Understand the importance of business planning and the planning process. Create an "Value Proposition." Create a "Lean Canvas." 	Basic Planning	Creating a Quick Business Plan	Mentor Review & Feedback
<ul style="list-style-type: none"> Choose your business entity. Make state/local business license applications. Determine your business insurance needs. 	Creating a Business Structure	Setting Up a New Business Entity	Mentor Review & Feedback
<ul style="list-style-type: none"> Define your target market. (Part 1) Create your product or service descriptions. (Part 1) Decide on your pricing strategy. (Part 1) Write your marketing message: value prop, benefits & features. (Part 1) Create a promotional plan for your business. (Part 2) 	Creating a Marketing Plan	Marketing Part 1 Marketing Part 2	Today's Webinar Mentor Review & Feedback
<ul style="list-style-type: none"> Calculate your startup costs. Project your sales for your first year of business. Create a projected P/L statement for the first year in business. 	Creating a Financial Plan	Developing Financial Projections	Mentor Review & Feedback
<ul style="list-style-type: none"> Connect with your fellow entrepreneurs Introduce your business Start achieving your networking goals Walk away with new contacts 	Network	Networking: Building Connections for Business Success	Mentor Review & Feedback

- Webinars are focused on helping you complete the SB tasks; Mentoring provides advice and guidance to make the most out of the SB tasks
- Request a SCORE mentor at www.score.org/find-mentor

Your Presenter



- **Christopher A. Taylor** enjoyed a 40+ year career in the insurance industry in a variety of leadership, strategic, and management roles, retiring from Zurich as Head of Healthcare and Financial Institutions. As a SCORE Mentor he uses his experience in working with entry level staff up through senior executives, to help entrepreneurs with all aspects of their journey including business planning, strategy, marketing, sales, and creative thinking.

Disclaimer

- I am knowledgeable on entities and business but cannot provide legal or tax opinions.
- SCORE does not provide legal advice.
- The information contained in this presentation is for general guidance on matters of interest only.
- It is not a substitute for consultation with professional accounting, tax, legal or other competent advisors.
- Before making any decision or taking any action you should consult a professional.

Workshop Objectives

- To help individuals that are starting new businesses to:
 - Understand the different business entities and choose the best one for their business.
 - Understand how to properly register and license their business in their area.
 - Understand importance of insurance for their business.

“Profiting” from the Webinar

- Ask questions as we go along using the Q&A icon!
- Use these resources*
 - PDF of the workshop presentation
 - Do your homework using the worksheet -- your planning guide to support you in making your decisions and plans
- We will not have time to fully resolve every issue so consider getting a SCORE mentor!

POLL

*Links to workshop materials are posted on the webinar event page. A link to this web page was included in your registration confirmation email.

Agenda

1. Introduction
- 2. Choosing the Best “Entity” for Your Business**
3. Naming Your Business
4. Registering Your Entity and Securing Business Licenses
5. Using Your Entity and Recordkeeping
6. Protecting Your Business and Yourself With the Right Insurance
7. Closing

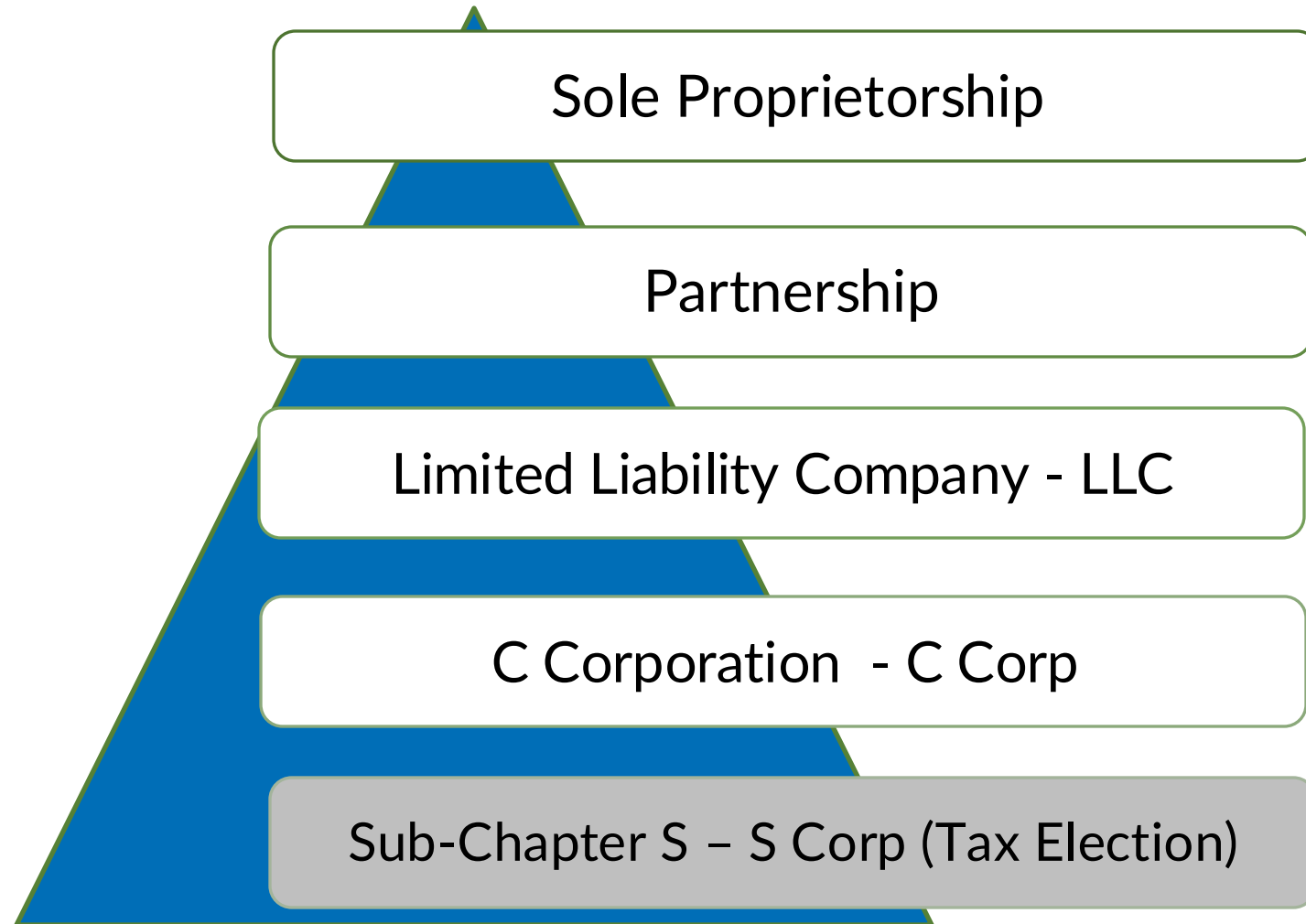
Business Entity

The legal structure for a business or organization that determines its liability, how it is taxed and its governance processes.

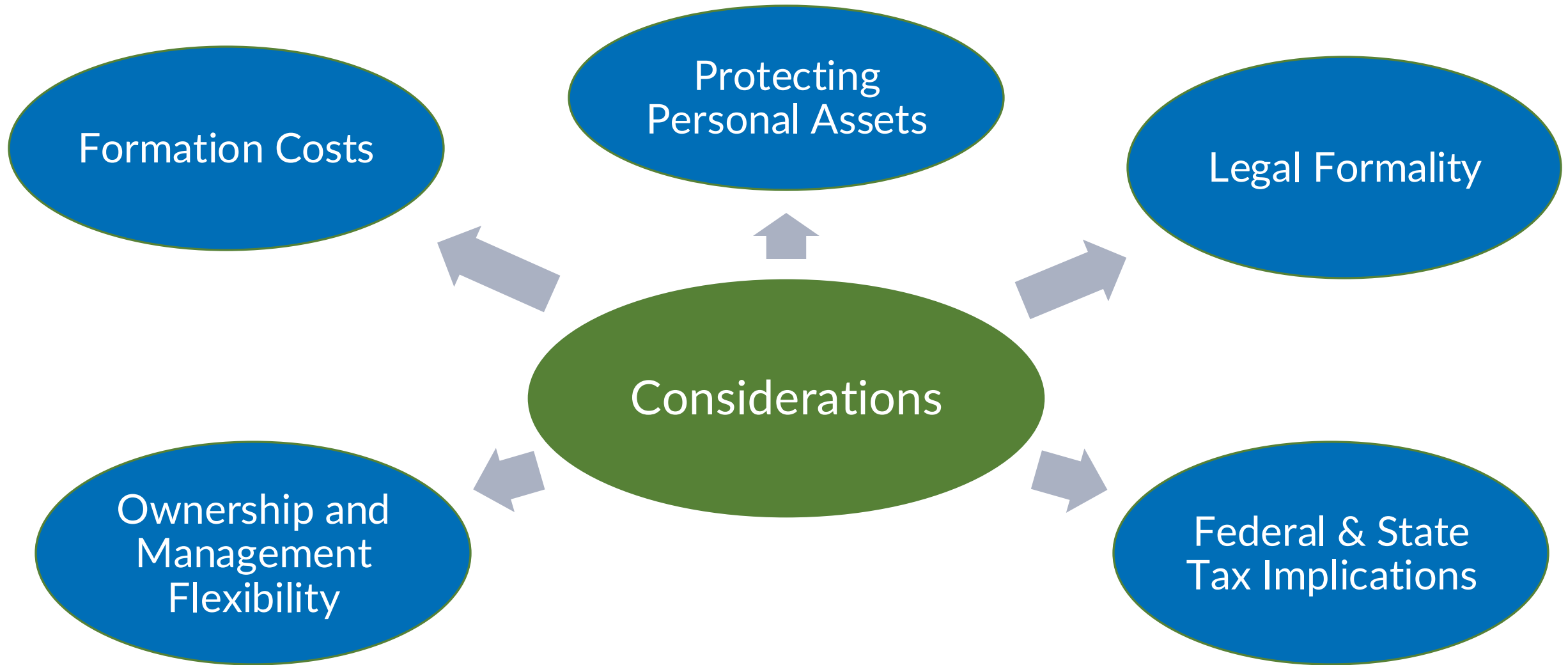
- Choosing the right business entity can:
 - Protect business owners from personally being liable for risks of the business.
 - Legally minimize the taxes the owner(s) pays.
 - Provide control of all business operations.
 - Allow for addition of partners or stockholders.
 - Enable the owner or owners to maximize their business profit potential.
 - Assist management in selection of proper company benefit plans for owners and employees.
 - Help take advantage of key federal and state tax benefits.

POLL

The Most Common Organizational Options



Selecting the Entity That's Right for You



Sole Proprietorship

- Personal assets at risk
- Almost always the initial start up entity
- Complete management control
- Ease of operations
- Minimal formation costs
- No separate tax return



Partnership



- Business venture of more than one person
- All management and accounting is centralized
- Partnership Agreement is important
- Requires capital contribution for ownership interest
- Must file separate tax return

Limited Liability Company - LLC

- Personal assets protected
- Profits and losses pass-through to owners
- Avoids double taxation
- Management and ownership flexibility
- Ease of operations
- Minimal formation costs



Sub-Chapter S Corporation



- Can elect this status as an LLC
- Personal assets protected
- Stockholder status for all owners
- Profits and losses pass-through to owners—entity pays no tax
- Most flexible type of corporate entity
- Special tax benefits for stockholders
- Requires a special election from IRS

The C-Corporation



- Personal assets protected.
- All owners are stockholders
- Legal formalities required to operate
- Multi state operating benefits
- Double taxation of profit distributions
- Preference for some professional service entities

The LLC Operating Agreement

All Multi-Member LLC's should have an Operating Agreement.

- What is it and why is it needed?
- What happens in the absence of an Operating Agreement?
- Does a Sole Member LLC need an Operating Agreement?
- Do I need an Attorney to write this Agreement?



Operating Agreements Resolve Conflicts

- Day-to-Day Management
- Initial Capital Contributions
- Additional Capital Requirements
- Voting
- Transfer of Interests
- Withdrawal & Buyout
- Non-Compete
- Confidentiality
- Non-Solicitation
- Resolution of Disputes
- The Role of Counsel



Choosing the Best Entity for Your Business Recap

- Sole proprietorship and general partnership are easy to set up but can have liability exposure.
- Corporations are complex to set up and maintain, so have a good reason to create one. Get an attorney to help.
- LLC is the sweet spot; they are easy to set up and provide liability protection.
 - Generally, if there is more than a slight chance of legal liability related to the goods or services of your business – you should establish a formal entity and use it.

QUESTIONS?

Agenda

1. Introduction
2. Choosing the Best “Entity” for Your Business
- 3. Naming Your Business**
4. Registering Your Entity and Securing Business Licenses
5. Using Your Entity and Recordkeeping
6. Protecting Your Business and Yourself With the Right Insurance
7. Closing

Naming Your Small Business

- Legal name
 - What you use for business licenses and taxes. It may or may not be the same as your public name. Must be unique.
 - Will have “LLC” or “Inc.” added depending on entity type.
- Public name:
 - A registered name for your street sign, website, advertising and business cards.
 - Known as a “Trade Name” or DBA (Doing Business As) name.



Examples:

Trade Name: Sonoma Paints

Legal Name: Williams-Sonoma Stores, Inc.

Naming Your Small Business

- Things to consider when selecting a name:
 - Choose a name that simply communicates who you are and what you do.
 - Avoid names that create issues with your competitors.
 - Be aware of made-up names that are hard to pronounce or lack connection to meaningful names. “Ketsuplious – the ketchup flavored ice cream!”
 - Avoid names that limit you in some way. “Bethesda Plumbing”
 - Don't pick a name that is long or confusing. “Association of Organizations of Bucks County with Municipalities of less than 3,000” or “Annapolis Ants”
 - Consider its online use. Can you get the domain name? Is it easy to type or find online?



Trade Names or DBAs

- A Trade Name or DBA Name is any unique name other than your registered entity (legal) name that you intend to use to “operate” your business.
- A single business entity may have more than one DBA.
- Can be used to conduct business without legal name: sign contracts, open bank accounts, on your business sign, etc.
- Does NOT protect your usage of the name.
- DBA registration is required in DC, MD, VA, WV, DE, PA, and NJ.



Naming Your Small Business Recap

- Do your research before you choose your business name.
- Identify potential competition with similar name.

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Business Entity Formation

- Entity formed by registering your business with the State/DC.
- Registration process usually done online and requires a fee.
- Register in the State you are operating in or have an office location.
This is usually your State of residence
- May have dual tax filing requirement if you reside in another state.
- LLC and Corporation owners usually provided liability protection only in State of registration
- Change of personal residence may require a new business registration.

Business Registration Requirements

- Multi-State Incorporation often not necessary for out of state sales.
- Always check if business name is available on state website.
- Business Owner will need a “registered agent” for the entity. The agent is the official contact to the state for legal matters. Can be assigned to a professional registered agent.
- States view business registration date as the start of your business even though you are in a planning phase.
- Use caution in choosing a state for registration for reasons other than a business location.

Should You Register Your Entity Yourself?

When to Register?

- **Services Businesses**
 - Wait until you start your business to register.
- **Wholesale/Retail Sales**
 - Consider registering before start up for sales tax license, if applicable.

- **Sole proprietor and Partnership:**

- No formation/registration may be needed but may need a business license. (Personal Property Return for Inventory and/or Business Equipment may also be required.)

- **LLC or PLLC*:**

- Single Member– Can form and maintain yourself.
- Multi-member – You may want an attorney to review the process.

- **Corporation:**

- Can register and maintain yourself – but suggest a legal review after set up completed.

*Professional Limited Liability Company: a specialized type of LLC used by certain licensed professionals

Corporate Transparency Act

- The filing requirements have changed for domestic US Companies and Limited Liability entities under this regulation.
- Go to the Fincen website for updated information: www.fincen.gov

Get a Federal Tax ID (EIN)

- What is a federal tax identification number:
 - Like a social security number for your business.
 - You use it to fill out tax forms, open a bank account, etc.
 - Or if your business receives an IRS form 1099.
 - Also called an EIN: Employer Identification Number.
 - When applying: the “EIN Responsible party” is the person who pays the taxes.
- Apply at the irs.gov website. (Search on “apply for an EIN irs.gov”).
- All LLCs, Partnerships and Corporations must have one; optional for sole proprietors but recommended:
 - Allows sole proprietor to use the EIN rather than their personal social security number in business transactions (1099s) requiring a federal tax ID.



Business Registration: Where to Go for Info

DC	dlcp.dc.gov/
DE	onestop.delaware.gov/
MD	businessexpress.maryland.gov/start/licenses-and-permits
NJ	business.nj.gov/pages/register-your-business
PA	pa.gov/guides/starting-a-business
VA	scc.virginia.gov/pages/New-Business-Resources
WV	business4.wv.gov/startmybusiness/Pages/Register-Your-Business.aspx
Other States	sba.gov/business-guide/launch-your-business/register-your-business

Work with your local mentor score.org/find-mentor

Getting a Business License

- Required for many businesses, including retailers and wholesalers if working from a location visited by customers.
- Know where you will be operating your business to get the license in the right jurisdiction. Follow city, county or state regulations.
- Usually done online. Locate activities requiring a license and may differ if multiple business locations.
 - Those activities involving any type of food, health or vehicle product or service are likely candidates.
 - Play it safe and research in all cases.

Business Licensing by State

Delaware:

- Statewide business registration: https://onestop.delaware.gov/Operate_Register.
- Most large cities require a separate general business license. (location oriented).
- No state sales tax requirement.

District of Columbia:

- All corporations, partnerships and limited liability companies required to obtain a business license.
- Business license application: <https://dlcp.dc.gov/service/get-business-license>.
- Renewable every two years.
- Sales tax license: use Form FR 500: <https://mytax.dc.gov>.

Maryland:

- Check county of business location for special occupation license requirements.
- Sales Tax License: <https://www.marylandtaxes.gov/business/sales-use/index.php>
- Annual Report (Form1) required for registered entities: <https://egov.maryland.gov/BusinessExpress/>
- Failure to file can result in loss of corporate charter.

New Jersey:

- Most large cities require a separate general business license. (Location oriented)
- Sales Tax License: <https://www.nj.gov/treasury/taxation/informationforvendors.shtml>.

Business Licensing by State – Cont'd

Pennsylvania:

- Check business location for local general business licensing via borough, township, city or county.
- Sales Tax License: https://mypath.pa.gov/_/#2.

Virginia:

- Business licensing required at county or city level - Check local city and county business websites.
- Sales Tax License: <https://www.tax.virginia.gov/sales-and-use-tax>.

West Virginia:

- Statewide business certificate required for all businesses. Go to <https://onestop.wv.gov/B4WVPublic/>.
- General business license may be required at local city level. (Location oriented)
- Sales tax license: <https://onestop.wv.gov/B4WVPublic/>.

All Other States:

- Search for “business licensing requirements in <your state/locality>”
- Select the site offered by the state/locality for free

Your Business May Be Subject to Other Requirements

Other Filings, Taxes and Requirements May Include:

- Annual gross receipts tax
- Personal property tax
- Health department permits and inspections
- Zoning permits and inspections
- Food handling certifications
- Sales and Income taxes
- Alcoholic Beverage license
- State Unemployment Tax (SUTA)
- Taxes particular to your location and business type

- You may be subject to additional filings, certifications and/or taxes
- Depends on your business type and location
- Check with each entity to determine how to handle required filings and tax payments
- Set up a “regulatory calendar”
 - Include monthly and annual filing dates for taxes, license renewals and any other regulatory requirements
 - Lets you know when they are due
 - Allows you to plan in advance and make sure you don’t miss any deadlines.

Maintaining Your Entity

- Most entities must be renewed each year via an annual report with a standard fee. Failure to file may result in loss of corporate charter.
- Corporate owners must document an annual meeting (i.e. stockholder meetings for corporations).
- Required annual income tax returns for entity must be filed.

Registering Your Business and Securing Licenses Recap

- Register your entity.
- Get a Federal Tax ID (EIN number) for your business entity.
- Look at potential multi-state business activity.
- Obtain appropriate business licenses.
- Make sure you are aware of additional regulatory requirements in your jurisdiction (taxes, permits, certifications).
- Renew your entity annually.
- Set up a regulatory calendar to keep track of due dates for tax payments, license renewals and any other regulatory requirements.

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Using Your Entity

- Use the LLC/Corporate name in all business activities and transactions (buying and selling).
 - Charge accounts, supplier accounts, contracts, quotes, etc.
- Keep all business finances separate from personal finances.
 - Get separate bank account and charge cards for your business. Can use separate personal credit card. (Does not have to be a business credit card)
- Sign all contracts and obligations as: LLC or INC.



Recordkeeping

- This process happens the day you begin planning the startup of your business.
- Keep track of everything you spend money on to get your business off the ground.
 - “Start Up Costs” may have a tax impact in year of startup.
 - Keep all initial costs on an Excel worksheet with named categories.
 - Select a dedicated personal credit card for all start up costs.

Why Keep Records?

Types of Records:

- Credit Card Receipts and Statements
- Cancelled Checks
- Cash Receipts
- Business Invoices
- Photos and or Detail from Smart Phone
- Emails Sent and or Received
- Text Messages Sent and or Received
- Phone Logs and Invoices from phone service suppliers
- Virtually Anything Written or Saved on a Computer, Laptop or Cell Phone

- Good records will help you:
 - Monitor the progress of your business
 - Prepare your financial statements
 - Identify sources of receipts and \$\$ owed to you
 - Keep track of expenses and \$\$ you owe
 - Prepare and support your tax compliance
 - Substantiate a transaction
 - Support a loan application

Consider an Accounting System

- An accounting system can help you manage your business as you grow
- What can an accounting system do?
 - Balance your books and print checks
 - Generate comprehensive financial reports
 - Prepare inputs in support of tax returns
 - Design your own invoices and statements
 - Determine which customers owe money
 - Determine which creditors you owe
 - Estimate project profitability
 - Track expenses for any fiscal period
 - Overall, chart the progress of your business

Using Your Entity and Recordkeeping Recap

- You must maintain and use your entity for it to protect you.
- Plan for an accounting and recordkeeping system.
- Seek professional accounting / tax advice to assist with quarterly tax filings and to keep you abreast of federal and state requirements.

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Managing Risk With Insurance

- Insurance shares risk of losses between all participants.
- If there is a loss, insurance provides:
 - Replacement of property.
 - Legal defense for you if you get sued and a (limited) payout if you lose.
- If you do NOT buy insurance, you are “self insured.”
 - You bear all the risk of a loss.



Type of Insurance Coverage

- **General Liability** covers:
 - Bodily injury and property damage
 - Advertising (e.g., copyright, slander) and personal injury liability
 - When do you need it? **Always!**
- **Professional Liability** covers liability incurred as a result of errors and omissions in performance of professional services
 - For traditional professionals and quasi-professionals (attorneys, accountants, consultants, counselors, etc.)
- **Commercial Property** covers property for its loss, or the loss of its income-producing ability at your business's address



Automobile Insurance

- **Commercial Auto** covers personal, and business owned autos when used for business purposes.
- **Hired & Non-owned Auto (HNOA)** covers liability expenses for accidents involving vehicles that your business uses for work purposes but doesn't own.
- **Personal Auto** – Personally-owned vehicles used for business need separate coverage. (Check with your insurance agent.)



Insurance for Businesses Operated In Your Home

- Renters and homeowner insurance often deny coverage of claims associated with business activities like:
 - Customers that visit your home.
 - Business inventory keep at your home.
 - Business equipment located at your home.
 - Employees that work from your home.
 - Business equipment stored in your personal auto.
- Special “**home-based business packages**” are available to cover these situations.
 - Includes combinations of general liability, business property, professional (errors and omissions), etc.

Special Insurance Coverage You May Want or Need

Data Breach/ Cyber liability	Advisable if you store personal identifiable information (PII) of customers, have mobile employees, etc.
Liquor Liability	Typically required for restaurants, bars, convenience stores etc.
Inland Marine	Covers business equipment used in vehicles not covered by auto insurance.
Property in Transit	Covers inventory being delivered (e.g. delivery vans) not covered by auto insurance.
Property of Others	Covers property of others stored on your property (e.g. dry cleaners).
Business Interruption	Covers loss in the event of an event such as a fire, which can force you to temporarily or permanently relocate your business. Typically used by retail businesses
Commercial Crime	Covers employee dishonesty, theft of money, fraud, etc. Advisable if your employees handle large amounts of money
Contractors Insurance	Specialized coverage may be required for trades.
Worker's Compensation	Required by law for businesses with >1 employee (DC and MD) or >2 employees (VA). (Employee count does not include owner.)

How To Buy Commercial Insurance

1. Determine how you feel about insurance: Do you want the min, max, or middle?
2. Determine what you need to insure and its value
 - Make sure to find out what's required by state or federal laws (varies by business) and what is required by your contractual obligations with vendors, partners and customer.
3. Contact commercial insurance brokers and request quotes
 - Ask for a “Small Business Owners Package” or insurance specially designed for your business type.
 - See if you can access specialized insurance via professional association or other group.
4. Compare coverage and costs and determine which quote best suits your needs.

Protecting Your Business With the Right Insurance Recap

- Commercial insurance protects your business and your personal assets.
- Before you engage a commercial insurance broker.
 - Understand what you need to protect and its value.
 - Understand the types of insurance you need.
- You will most likely always need general liability coverage.
- Home office businesses need coverage and are not covered by your personal insurance.
- Business use of personal autos can be an issue – contact your personal insurance carrier.

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Webinar Go-Do's

- Using your SCORE Starting a Business Worksheet, complete and review the following with your mentor:
 - Entity Structure and Business Name
 - Registration and Licensing
 - Insurance Quote Questionnaires
- If you do not have a SCORE mentor, request one at www.score.org/find-mentor

SCORE
U.S. SMALL BUSINESS ADMINISTRATION

SETTING UP A NEW BUSINESS ENTITY

NOTE: THIS IS A FILLABLE FORM. USE THE TAB KEY TO MOVE FORWARD OR PLACE YOUR CURSOR DIRECTLY IN THE SECTION BOX.

CHOOSING YOUR BUSINESS ENTITY AND NAMING YOUR BUSINESS

BUSINESS ENTITY	COMMENTS OR QUESTIONS
<input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> General Partnership <input type="checkbox"/> LLC - Single Member <input type="checkbox"/> LLC - Multiple Member <input type="checkbox"/> PLLC <input type="checkbox"/> S-Corp <input type="checkbox"/> Other	

BUSINESS NAMES

The legal name of my business is: _____

I will also get these public names (Trade Names and/or DBAs): _____

REGISTRATION AND LICENSING

ACTION	NOTES
<input type="checkbox"/> I have registered my Entity Name	
<input type="checkbox"/> I have registered my DBA names	
<input type="checkbox"/> I will apply for a Federal Trademark	

FEDERAL TAX ID

I have applied for a Federal Tax ID (EIN) number

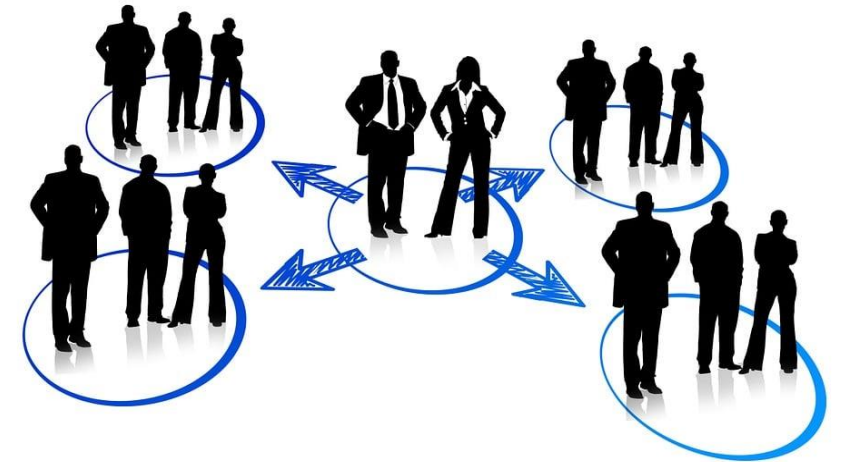
My EIN number is: _____

JOIN OUR **NEW** MONTHLY NETWORKING EVENT

Networking: Building Connections for Business Success

What You'll Do in This 90-Minute Session:

- Connect with your fellow entrepreneurs
- Introduce your business
- Start achieving your networking goals
- Walk away with new contacts



REQUIREMENTS TO ATTEND:

- ✓ Current SCORE Client with a Mentor
- ✓ Active Participant in the current Small Business Essentials Series

First Session Launches This Month!

Moderated by a SCORE Mentor

✓ Free to attend | ✓ Interactive | ✓ Fun & Practical

QUESTIONS?

Helpful Links

- Find SCORE resources for small businesses at www.score.org/templates-resources
- Find more SCORE live and recorded workshops and courses at www.score.org/get-business-training
- Book an appointment with a SCORE mentor at www.score.org/find-mentor





THANK YOU FOR YOUR PARTICIPATION



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