

I've Got a Great Idea for a Business! Now What?

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You've developed an idea for a business, created a twist on a product or developed a niche. Congratulations! That's the hard part. Many people put off implementing their business idea because the next stage, the "now what am I supposed to do?" part, can be daunting. It is important to "do it" right, though, as you will save time, trouble and often money down the road if your business is structured properly.

There are several steps on the path to a successful business venture. The first is to outline the concept — the product or service you will offer — and what differentiates your concept from what is already available, your "value proposition." The next step is to develop a business plan. A written plan provides at least two advantages: accountability and marketability. Marketing, financing, sales, operations and staffing are all part of a good plan, and each should have concrete, measurable objectives. This gives you a way to evaluate the company's progress, guides your actions and provides accountability. A good business plan can be a tool for recruiting potential employees and is necessary to secure capital from outside funding sources. Finally, it provides you with an opportunity to take a bird's-eye view of your venture and ensure that all the pieces fit together without gaps, particularly in terms of timing and cash flow.

As part of your business plan, you will need to determine where the business will be located. Will you work out of your home? Rent a location? Purchase a building? Purchase vacant land and build the facility you need? The costs of each need to be built into your plan and the necessity of financing considered. You will also need to ensure the location is properly zoned for the activity. Also, how many employees will you need? What licenses or permits are required?

After you've developed your business plan, you will have a better idea of expected revenue and expenses, along with potential liability risks. Working with your accountant, we can help you select the proper business entity to provide the appropriate protection to you, both personally and financially. One of the most flexible entities is the limited liability company or "LLC." There are other options,

such as corporations and partnerships, and there are many different types of corporations and partnerships, such as professional corporations, general or limited partnerships, and the relatively new beneficial corporations for socially responsible companies. Tailoring the type of business entity and its controlling documents to your needs and circumstances is crucial.

A sole proprietorship is often known as a DBA, which stands for "doing business as." For example, Joe Smith bakes pies and markets them as "Uncle Joe's Pies," but he has not formed a business entity; Joe is doing business as "Uncle Joe's Pies." However, Uncle Joe's Pies does not have a separate existence from Joe Smith: its debts, liabilities, assets and profits all really belong to Joe Smith. If a pie makes a customer ill, that customer could look to Joe's assets, such as Joe's bank accounts and home, to pay for any damages.

A corporation is a legal entity that is separate from the individuals involved in the company. When documents are properly executed and the formalities of a corporation are observed, the debts of the corporation belong to the corporation, as do its assets. Contracts of the corporation generally will not bind the individual signing the document. Incorporation also provides certain protections against personal liability: if a widget malfunctions and someone files a lawsuit and gets damages, usually the damaged party cannot expect to recover money from the president of the widget manufacturing corporation, individually, but only against the assets of the widget company. A variety of actions and circumstances can erode the liability protection, however. A corporation can be taxed as a stand-alone entity, with the corporation paying federal income tax and then the individual shareholder paying income tax on the profits distributed to each shareholder. For obvious reasons, this is known as double taxation. In certain cases, the corporation can elect to be treated as an "S corporation," which eliminates the double taxation by making the corporation a pass-through entity, meaning the profits distributed or passed through to each shareholder are the sole point of federal income taxation.

A partnership is two or more individuals working together to create a business. Responsibility for the partnership's debts or losses is shared between the individuals involved, as are the profits. In general, partnerships provide little protection from liability.

A limited liability company can provide the most flexibility: it can choose to be taxed as a corporation or a partnership, or if there is a single member, as a pass-through entity such as an S corporation. It can be managed by its members or the members can appoint a manager. It can provide a greater degree of liability protection than a partnership. However, it is often more difficult for an LLC to raise capital than it is for a corporation, and there are some potential taxation issues, particularly if the LLC does business in more than one state and is taxed as a partnership.

After the proper business entity has been selected and created, we can assist you with the details of setting up your business by drafting leases or real estate purchase agreements; contracts with vendors or purchasers, and agreements to prohibit partners, co-owners or employees who leave the business from poaching your other employees or taking confidential information and using it to start their own business; helping you obtain permits; and ensuring your location's zoning allows your business operations or obtaining zoning relief, among others. We can help you set up your business to succeed!

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