

Silver Advantage **Accounting Alert**

Starting Your Own Business

By Janell Wilson, CPA -- Audit Manager

November 2013 -- Starting your own business can be an exciting undertaking, but it can quickly become overwhelming if you're unprepared. This article highlights some of the key considerations you should think about as you progress along your path to entrepreneurship.

Determine the Most Advantageous Legal Structure

The various legal structures available to a business include: *sole proprietorships, general partnerships, limited liability partnerships, limited partnerships, limited liability companies, C Corporations, S Corporations, nonprofit organizations, and cooperatives.*

These different legal structures all have varying costs, complexities, exposure to personal liability, and tax law implications. For example, tax law implications include:

- federal tax elections that must be made upon formation of the business and upon filing the initial tax return;
- the combined federal tax liability of the business and its owner and related tax rates, and the ability to pass through tax income or losses to shareholders/members/partners;
- and the impact of payroll taxes and self-employment tax.

Our best advice is to work closely with a CPA and an attorney, both of whom can help navigate the differences in legal and accounting structures, and guide you towards the best choice for your new business.

Create a Written Business Plan, including Financial Considerations

A business plan typically includes information such as the mission and vision of your business and what makes it unique; your marketing strategies and how you plan to grow the business; financial and sales goals; and detail about the organization and management of the company. In addition, partnerships and limited liability companies may consider preparing an operating agreement; corporations may consider creating company bylaws.

Although only required for corporations, establishing a board of directors can prove to be a beneficial resource for any company. The board can provide advice, guidance and feedback that is essential for

achieving your business goals. For example, decisions related to the name of the business, location of operations and whether to rent or buy, as well as the best way to maintain records and accounts, can be decided and recorded at board meetings.

It's very important to keep in mind, as part of the business plan, that financial planning and budgeting is an essential consideration when starting a business. Develop a variety of budgets that address "worst-case" and "best-case" scenarios. Additionally, identify all sources of capital and work closely with your CPA to determine your capital requirements.

Set Up Banking and Other Key Services

Prior to commencing operations, open a commercial checking account with deposit and/or savings and investment services; set up direct deposit, credit card processing, and wire transfer services; obtain a corporate credit card; and consider hiring a payroll processing company.

Other services to add to the checklist might include business insurance, technology, and any marketing and promotional services that you might need.

Become Familiar with Federal, State and Local Registrations, Licenses and Filing Requirements

It's important to get in touch with federal, state and local governmental authorities and apply for the appropriate business licenses and permits. Please refer to **Appendix I** for some of the things you should consider and address in this process.

Understand Employer Responsibilities, including the Design of an Employee Benefits Package

If you plan to hire employees, there are a range of legal considerations to keep in mind, outlined in **Appendix II**. Additionally, don't forget to design an appealing employee benefits package. In addition to benefits that an employer must provide by law (e.g., social security taxes, unemployment insurance, and workers' compensation insurance), a business also needs to attract and appeal to employees. Benefits to consider include health insurance; disability insurance; retirement and cafeteria plans; vacation, sick, personal and holiday leave; flexible hours; and work-from-home options. Sole proprietors might consider establishing a retirement plan, such as a SEP, SIMPLE, or Keogh.

Michael Silver & Company CPAs can provide the expertise and guidance needed to help you start your own business. Please contact me at 847.213.2092 if you have questions or would like additional information.

Janell has over seventeen years of experience in public accounting, assurance and tax services. She is responsible for audit engagement management, supervision, reporting, and other operational matters. Janell's specific experience is across a wide range of companies within the private and middle market sector, and within industries including manufacturing, automobile dealerships, retail, religious and charitable organizations, trade associations, and leasing companies. She also has experience with employee benefit plan audits.

APPENDIX I -- Federal, State, and Local Registration and Filing Requirements

Federal:

- File Form SS-4 or apply with the Internal Revenue Service (IRS) online at www.irs.gov for a Federal Employer Identification Number (FEIN).
- For Corporations or Limited Liability Companies (LLCs) to elect S Corporation status, Form 2553 - Election by a Small Business Corporation (S Corporation) should be filed with the IRS. For a newly formed Corporation, the election of S Corporation status must occur on or before the 15th day of the third month, measured from the earlier of the date the company has shareholders, begins doing business, or acquires assets. There are circumstances when a late Form 2553 may be filed.
- You may need to obtain a federal license if your business is involved in activities that are regulated by a federal agency, such as the sale of alcohol.
- Consider registering for a federal trademark with the U.S. Patent and Trademark Office, in order to protect inventions, words, names, symbols, and logos that distinguish your goods and services.

Illinois:

- Register your business with the state of Illinois through mytax.illinois.gov or by completing REG-1 Illinois Business Registration Application. Consult with your CPA to determine the proper tax reporting registration needed.
- Collect and pay sales tax on all receipts from the sales of tangible personal property; maintain documentation of tax-exempt sales; pay use tax on tax-exempt purchases of items used by your business; file Form ST-1 with the Illinois Department of Revenue; and keep complete and accurate books and records of all sales and purchases. Sales tax does not apply to the sale of services, but your company may be responsible for paying use tax.
- Determine whether your business activities are regulated by a state agency. If necessary, obtain permits or register with state agencies.
- For Corporations, the Articles of Incorporation must be filed with the Illinois Secretary of State.
- Corporations are required to file annual reports with the Illinois Secretary of State and pay an annual fee.
- Limited Liability Partnerships must pay a filing fee to the Illinois Secretary of State based on the number of partners.
- Limited Partnerships and LLCs must pay a filing fee to the Illinois Secretary of State annually.
- Consider registering for a state trademark through the Illinois Secretary of State for your business name. This will provide protection that your business name cannot be used by another entity within Illinois.

Local:

- For sole proprietorships and general partnerships, Illinois law requires that you register with the county clerk's office where your business is located to obtain a "Doing Business As" (DBA) name. Choosing your name carefully could avoid this necessity.
- Contact your city and county clerk for information on local licensing and registration and requirements to comply with local zoning laws.

APPENDIX II - Your Responsibilities as an Employer

- Complete Form I-9 - Employment Eligibility Verification to verify the identity and employment eligibility of anyone to be hired. The form does not need to be filed with any government agency, but should be retained by the employer and made available for inspection by U.S. government officials.
- Obtain Form W-4 - Employee's Withholding Allowance Certificate from employees and retain the certificate for your records. The employer is responsible for federal income tax withholding.
- Obtain Form IL-W-4 - Employee's Illinois Withholding Allowance Certificate from employees and retain the certificate with your records. The employer is responsible for Illinois income tax withholding.
- Register with the Illinois Department of Employment Security (IDES) within 30 days of business start-up by filing Form UI-1 – Report to Determine Liability under the Illinois Employment Insurance Act. They can provide a poster to display in your place of business.
- File a New Hire Reporting Form with the IDES for new employees within 20 days of an employee's first day on the payroll.
- Obtain workers' compensation insurance, as required. The Illinois Worker's Compensation Commission requires the display of a notice in the workplace listing the insurance carrier and explaining workers' rights under the law.
- The Equal Employment Opportunity Commission (EEOC) requires businesses with 15 or more employees to display the "Equal Employment Opportunity is the Law" poster.
- The U.S. Department of Labor (USDOL) requires businesses with one or more employees to display certain posters to inform employees of their rights.
- The Illinois Department of Labor (IDOL) requires employers to display the "Notice to Employers and Employees" poster.