

# **Starting Your Own Business: Business Basics**

(excerpt from Donegal Bay Publishing's Take This Job...)

Take This Job...;Chapter 2 – Business Basics

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## What to do first –

- Come up with a business name
- Get your business name registered as a DBA (doing business as)
- Open a business checking account
- Get an EIN if necessary
- 

### *Come Up with a Business Name*

This is the easy part. A business name is usually the first impression a potential customer will get of your company. You want a name that is professional, but attention-getting. Try to incorporate what the business does in the name of the business. This makes advertising more effective, since people only have to see the name of the business to know what they do, instead of having to read an advertisement. For example, one of the author's enterprises was a paintball business was initially labeled Death Valley Games. Later, when the business expanded to 20 acres of land, the name was changed to Wild World Paintball. The newer name is more descriptive and anyone who sees the name will know that it is a paintball business. This is even more important with businesses that will rely on the internet for most of their income. The biggest obstacle to internet sales is getting found by the potential customers. This involves submitting your website to search engines so people can find your site when they are searching. If you have a business description in your business name and use this as your domain name, it will be easier for your website to be found by people surfing the internet.

In large cities with many suburbs, as well as chains of rural communities, using the location of the business in the business name is a possibility. Using the name of the city or suburb that the business is located in will help people to know where the business is located. This could generate more business, since people are more likely to do business close to home, or it could decrease business, since people who live in a different suburb may not even call the business since they know it isn't close to home. When the company is an internet company, these negative consequences wouldn't be as important since sales transactions take place online.

Keep in mind future growth of the company when naming your business. It's great to say what your business is all about in the business name, but you should consider the possibility that the business may grow into slightly different areas in the future. For instance, one of the authors recently took over a website hosting company. The author changed the business name to Arkansas Web Solutions. This name lets potential customers know that the business provides some sort of website service, as well as allowing for growth by not narrowing the name of the company down to Arkansas Web Hosting. At times the new business ventures may have nothing to do with your current business and a new division of your company with its own name will be needed.

Many people like to use their name as all or part of their business name. This is discouraged for several reasons. Successful entrepreneurs sometimes end up selling their businesses, and a business with the founder's name in it will probably get its' name changed in an ownership change. Negative consequences of this for the founder is that the business he or she toiled for years to build will no longer exist, at least from the business name point of view. The person buying the business could lose business with a name change – the company's customer base may realize the business has changed hands and find a different place to do their commerce. Another point to consider is that many start-up businesses fail in the first year. A business that fails that contains your name will be more of a psychological blow due to the association between the name and the business. There can be positive consequences to using your name in the business name. In small communities where everyone knows everyone, a known and respected local family may want the community to know who is running the business.

When thinking of a company name, keep future advertising in mind. Did you ever wonder why there are so many companies called AAA? A company named AAA gets put first in any alphabetical listing, which is how most advertising lists are organized. Take one of the forms of advertising with the most potential and cost-effectiveness – yellow pages. Whenever you flip through a phone book's yellow pages looking for a business, the companies that start with "A" or "AAA" get listed first, where potential customers will see them. Companies that have business names that start with letters that

fall later in the alphabet get placed towards the end of the listings, where many people never even get to before finding a company to do business with. That's not to say go call yourself AAA Whatever. Just keep in mind that if you can work the first word of your business name to be a letter at the beginning of the alphabet, you could see increased sales.

The minimalist approach calls for naming the business your name. It has to be your name, not a derivative thereof. The only advantage of this is that it prevents having to file a DBA. This is not recommended because a professional image is absolutely necessary for a business – hard to maintain when a business is called Joe L. Schmo.

### ***Who needs a DBA License (“Doing-Business As” License)?***

Unless you decide to call your company your name and your name only, you will need to file a “Doing-business as”, or DBA, as it is commonly referred to. This is required by law and it protects your business name in your state so no one else can use the same name.

### ***How do I get a DBA?***

The first step is to determine if the business name you want to use is available and not already registered by someone else in your state, then you will register your DBA name. One of the easiest ways to get this done is to start a business bank account. You will want to have a separate account for your business venture, otherwise keeping track of funds will be next to impossible. Most banks will require that you have a DBA to open a business account. Some banks will perform the check to determine if the name is available as well as register your DBA, at no charge. There are many websites that offer DBA search and register services. This costs money, though, usually from \$100 to \$200. The best method is to open a business account at your local bank since they will research

the availability of the name and register your DBA name. If this is not an option, here are some links of online services that can register your DBA for you.

[www.legalzoom.com](http://www.legalzoom.com)

[www.incorporatetime.com](http://www.incorporatetime.com)

[www.quickcompany.net](http://www.quickcompany.net)

Some states require that an announcement of the DBA be published in your local paper. Check your state's requirement online by searching for DBA and your state to see if this is necessary, or ask the bank where you open your business account.

### ***Create a Business Account***

If you didn't get a separate business account when filing your DBA, do it now. It is crucial that your business finances be kept separate from your personal finances. This is necessary to accurately track sales, bills, taxes, and profit forecasting. Don't go overboard here – you want to keep spending in general low initially. Don't let the bank talk you into something you don't need. Try to get a free or low monthly fee business checking account to begin with. Most banks will offer business customers a free debit card – this is a great substitute for a credit card – you can do everything with a debit card you can do with a credit card – except spend money you don't have and can't afford to borrow. Credit cards are a money pit, and if you can, avoid them!

### ***What Kind of Business Licenses Do I Need?***

While this will vary somewhat from state to state, generally business licenses are issued by local government offices – usually city or county. A basic business license is required to start your own business. This is a simple and inexpensive process. A phone call to your local city clerk's office or chamber of commerce will reveal if your city issues business licenses, or if you will need to obtain a license from the county or state. Take the time to fill out the necessary forms and pay the processing fee. Having a business license will legitimize your business venture. Even if your business doesn't have an

office, and you do all of your sales door to door, an official business license ensures potential customers that you are running a real business.

The U.S. Small Business Administration (SBA) runs a quality website with a broad range of resources for small business owners. One of the functions of the website is a list of states with links to each individual state's business licensing department. The website address is:

<http://www.sba.gov/>

Specialty business licenses are necessary for certain businesses. Check with your state revenue office to determine if the type of business you are operating will be subjected to further licensing requirements.

### ***What About Sign Permits?***

Many of the businesses in this book are small, home-based businesses that won't require signs. There are many instances, though, even if the business is run out of a home, where a sign may be desired to help increase sales. If you do decide to use a sign, investigate local codes for sign criteria and necessary permits. Usually sign permits will be issued by your city clerk for a small fee. Issues can arise with bureaucracy that can slow the entire process down to a crawl. Cities usually have physical requirements of the sign, including size, construction, and support. Check local codes first before constructing a sign. If you are renting office space for your business, chances are that the building already has a sign and a sign permit. When looking for an office for your business, always ask the owner about sign requirements and if you can use a pre-existing sign or sign support structure. A phone call to the city clerk's office will reveal what is required in your particular city. Worst case scenario you will fill out a form, pay a small fee (usually \$25), and wait for your permit to arrive.

### ***What about Federal Tax ID Numbers – Do I need one?***

What people call a federal tax ID number is obtained from the Internal Revenue Service (IRS) and is known as an EIN (Employee Identification Number). The IRS requires a business to get an EIN if the business owner can answer “yes” to any of the following questions:

- Do you have employees?
- Do you operate your business as a corporation or a partnership?
- Do you file any of these tax returns: Employment, Excise, or Alcohol, Tobacco and Firearms?
- Do you withhold taxes on income, other than wages, paid to a non-resident alien?
- Do you have a Keogh plan?
- Are you involved with any of the following organizations: Trusts, estates, real estate mortgage investment conduits, non-profit organizations, farmers’ cooperatives, plan administrators

### ***How Do I Get an EIN?***

There are several ways to get an EIN. These include:

By phone: The IRS website states that taxpayers can get an EIN by calling the Business and Specialty Tax Line at 1-800-829-4933 between 7:00 a.m. and 10:00 p.m.

By fax and by mail: These methods involve submitting federal form SS-4 to the IRS. The SS-4 form can be found at the following link online:

[https://sa.www4.irs.gov/sa\\_vign/newFormSS4.do](https://sa.www4.irs.gov/sa_vign/newFormSS4.do)

The following chart shows where to submit the SS-4.

| If you live in this state...   | Fax or Mail to this Address   |
|--|---|
| Connecticut, Delaware, District of Columbia, Florida, Georgia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, West Virginia   | Attn: EIN Operation<br>Holtsville, NY 11742<br><br>Phone: (800) 829-4933<br>Fax: (631) 447-8960   |
| Illinois, Indiana, Kentucky, Michigan  | Attn: EIN Operation<br>Cincinnati, OH 45999<br><br>Phone: (800) 829-4933<br>Fax: (859) 669-5760   |
| Alabama, Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Iowa, Kansas, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, Puerto Rico, South Dakota, Tennessee, Texas, Utah, Washington, Wisconsin, Wyoming | Attn: EIN Operation<br>Philadelphia, PA 19255<br><br>Phone: (800) 829-4933<br>Fax: (215) 516-3990 |

***What Are the Different Types of Business Ownership Organization?***

The primary methods of business organization are:

1. Proprietorship
2. Partnership
3. Corporation
4. LLC – Limited liability company

### **Proprietorship:**

A proprietorship is the simplest and most widely used form of business organization. It can have employees. It's a good choice for someone who is beginning a business with no employees and limited assets. Husband and wife are considered as one.

Advantages:

- \*It can easily be started.
- \*The owner has freedom to make decisions.
- \* The owner takes all profits.
- \* Can take deductions for business expenses and for business losses with some limitation.

Disadvantages:

- \* Unlimited liability for self and any of your employees. Creditors can claim personal assets-home, savings, auto, and investments.
- \*Life of business is dependent on owner.

### **Partnership:**

A partnership is a business owned by at least two people. Each partner contributes labor, money, skill, or property and each shares in the profits and losses. Percent of ownership usually equals each partner's initial investment. It can have any number of employees. Must do business under a trade name. It is the least desirable and riskiest form due to the unlimited liability of the partners. A legal partnership agreement with carefully thought out provisions is advised.

Advantages:

- \*No double taxation. Profits or losses are passed through to its partners. Each partner includes the profit or loss on his or her tax return. Partners are not employees.
- \*Deductions for business expenses can be taken.
- \*Shared ideas of partners.
- \*Combined contributions provide more available funds to work with.

Disadvantages:

\*Unlimited liability of partners. Partners are liable for each other's and employees' acts done in business.

\*Certain tax breaks are not available such as

- a. No exclusion for \$50,000 life insurance
- b. No deduction for health insurance

\* Disagreements between partners can arise regarding decisions.

### ***Types of Partnerships***

General- 2 or more individuals who manage and control the business.

Limited – one or more general partner and one or more limited partners. Limited partners are liable for activities of the business to the extent of their investment . The general partners do the day to day tasks and manage the business.

### **Corporation:**

A corporation is considered an entity separate from its owners. It is established in the state where the headquarters are located. Owners are shareholders or stockholders. They elect a Board of Directors which develop and maintain policies.

Advantages:

Shareholders have limited liability.

Selling stock can raise funds.

Life of the business is unlimited.

Tax advantages such as:

100% deduction for health insurance

Deduction for cost of \$50,000 life insurance.

Disadvantages:

Formation requires assistance of lawyer who may charge \$500-1500.

More paperwork is required on a continuing basis.

Double taxation results as the corporation pays income tax as well as stockholders on dividends or distribution of share of profit.

***Types of corporation for tax purposes.***

**C Corporation** is taxed on profits. Dividends issued to stockholders are taxed as income. Losses are not passed through to shareholders.

**S Corporation.** Profits and losses pass through to shareholders with some limitations. This might be good for a small company who has large startup costs, thus expecting a loss rather than a profit the first few years of operation.

**LLC Limited Liability Company.** A LLC is defined as a corporation taxed as a partnership. It is a relatively new form and may not be recognized in all states. It combines the advantages of a corporation (minimal personal liability) and a partnership (sharing management decisions and profits.).

***What is a sales tax ID number and how do I get one?***

A sales tax ID number is used to identify businesses within a state for tax purposes.

When you sell a product or some services you are required to pay sales tax in most of the U.S.A. Businesses must report their sales and pay taxes on these sales. The sales tax ID number is used when taxes are submitted to the state.

Contact your state department of treasury about specific information in your state on how to register for collecting and paying sales tax. States have different rules and exceptions. If you are buying items for resale, chances are you will not have to pay sales tax if you have some kind of an exemption granted by the state.

Once you contact your state sales tax agency, they will assist you in getting a sales ID number.

### ***How do I get wholesale prices?***

Wholesale prices are the prices that are charged to product retailers. Wholesale prices are obtained through wholesale suppliers, and are in the range of 50% of the suggested retail value. This provides a healthy profit margin for the company selling the product to the consumer. Suppliers will have their own criteria for granting wholesale prices to a business. These criteria are set up so that a person can't set up a business account with a business and then purchase products for personal use at a significantly reduced price. Most wholesalers require a federal tax ID number, a business license, and detailed personal and business information. Once you get designated as a retailer, you will be able to purchase goods at the wholesale price.

Do some research before choosing a wholesale supplier. Ensure the reputation and ability of your supplier. A good supplier can help minimize capital investment, and maximize profits. Beware of inexperienced or poorly-run suppliers who won't be able to keep you stocked with the products that you need will

### ***What do I do about sales taxes?***

State departments of revenue normally are in charge of collecting sales tax. Sales tax is an added charge to goods or services, in percentage form. Most products in the United States are sold without the price of tax included. Sales tax generally ranges anywhere between 5% to 10% and up. Businesses are responsible for charging consumers the extra percentage for the tax, and periodically, usually monthly or quarterly for smaller businesses, submitting a check to the appropriate authority for the collected tax. Many cities and counties charge sales tax in addition to the state, to fund local projects. Check with your state's Department of Revenue as well as your city officials to determine the necessary sales tax to charge and when and where to submit the tax money.

### ***What about credit cards?***

Credit cards are the scourge of modern society, in this author's opinion. Credit cards can quickly become a burden and a nightmare to businesses and individuals who don't use them wisely. Credit card companies entrap consumers by sending them pre-approved cards with low introductory interest rates, and giving them ridiculously high credit limits.

The low introductory rates quickly turn to high interest rates, and the debt increases. In a society where appearances are the most important factor, credit cards are used to maintain an appearance of a certain level of income. With the widespread availability of debit and check cards, the need for credit cards is drastically reduced. Debit cards can be used just as a credit card, for online or over-the-phone purchases. Steer clear of credit cards if at all possible.

If you decide, based on the cash-flow of your particular business, to get a credit card, get one with a low enough credit limit that you will be able to pay off the entire balance each month, but high enough to be able to obtain the products necessary for your business.

### ***Will This Business Work (make enough money to be worth my time?)***

Many business owners dive headlong into a business venture without doing any sort of cost/profit analysis. If the initial investment in the business is negligible, then a profit analysis is not as crucial as a business that must lease or buy an office, hire employees, advertise, etc. People who start businesses that require a large amount of financial investment are taking a risk when they start their business. This is why a thorough evaluation of the potential income and profit of a business is important. Without a thorough analysis, no one can say if a particular business venture will be profitable.

Fortunately, this book highlights business opportunities that require a minimum amount of initial investment. These businesses do not have elaborate overhead costs, since most of them do not require the renting of office space. These businesses do not have high operating costs, so a financial analysis is not as crucial, but still recommended strongly.

The best way to look at the potential success or failure of a business is in terms of costs and income. If you have a computer, open a spreadsheet program such as Excel. If you do not have a computer, just use pen and paper (you'll need a calculator). The following steps will show you if a particular business venture would be a wise investment.

1. Determine all overhead costs, preferably broken down into a month of time. List the name of the costs in one column of your spreadsheet or paper, and the amount next to it. This includes:
  - monthly rent or mortgage
  - monthly utility bills

- equipment costs like computers, cash registers, stationary, signs, etc.
- 
- 2. Determine the amount of money that will be spent on advertising each month
- 3. Determine monthly employee pay including social security and tax payments
- 4. Determine how much money you will require as payment from your job
- 5. Determine the cost of obtaining your product, and determine the quantity of product that you will need on hand.

Many people get a rough idea of only the largest costs of running a business before starting, but rarely does an entrepreneur sit down and figure out all of the costs that will be incurred. Even rarer is a business starter who actually finishes the analysis by analyzing the potential income of the business.

Once all of the costs have been figured out, add them up, write down your total. This is the amount of money that is required to run your business for one month, called the total monthly cost. Any amount over this will be profit for the business. You must now determine what it will take to cover these costs. This is where many businesses fail to plan and fail to see the reality of the business they have chosen. The following steps will bring you to the completion of your business analysis:

1. How much will you sell your product for?
2. How much profit is made on each unit sold? (subtract the cost of obtaining the product from the price you will charge for )
3. How many units must be sold each month to meet your total cost? (take the total monthly cost and divide it by amount of profit per unit.)

Use the following worksheet to make the analysis

| <i><b>Expenditures</b></i>   | Fill in these blanks. |
|--|-----------------------|
| Monthly overhead costs: rent, utilities, equipment, supplies           |                       |
| Monthly advertising costs  |                       |
| Monthly Payroll  |                       |
| Monthly Personal Payment   |                       |
| Monthly product cost (cost of product * quantity needed for one month) |                       |
| Add the above rows, this is the <b>total monthly cost</b>              |                       |
| <i><b>Income</b></i>   |                       |
| How much will you sell the product for? ( <b>retail price</b> )        |                       |

|   |  |
|---|--|
| How much profit will be made on each unit sold?<br>(subtract the cost of product from the retail price)                             |  |
| How many units must be sold each month to meet your operating costs? (Take the total monthly cost and divide it by the unit profit) |  |

The number in the bottom right box is the number of units you must sell to meet your operating costs. This can be used to determine the likelihood of success or failure. If your analysis shows that you will need to sell 20,000 units of your product, then you may have to abandon the project or at the least rework the idea. On the other hand, if the analysis shows that you need to sell 400, 1,000, or some other reasonable number, you will know that your business has the potential for success. This doesn't mean that your business will succeed, only that it is not impossible for it to succeed. This is a very simplified analysis. If you are selling more than one type of product, you will have different profit margins and product costs. This analysis can be used for multiple products, simply write the numbers for the other products next to the first numbers in the blank, separating them by a comma or other means.

If the potential income of the business cannot meet the costs of the business, the business is not a viable financial investment. A business that cannot make profit will inevitably fail. This is not to say that you start over at this point. Re-examine your costs and income, figure out if anything is changeable. In times of financial need, the business owner will often reduce the amount of money that she receives from the business. People who do not make a business analysis face a harsh wake-up call when they are surprised to find out their business isn't making money, and the business owner's payroll must be reduced to pay the bills. Advance planning can prevent this. Either reduce the potential costs by researching different suppliers, or figure out other ways to reduce overhead. Eliminating a physical office can be a huge money saver while not necessarily a detriment to the business. Some businesses do not need a physical office. Service businesses where you go to the customer do not necessarily need offices.