



Starting a Business? 5 Things You Need to Know

So you've decided to start your own business — congratulations! Many new owners open a business to be their own boss and chart their own course. However, along with those benefits come some complications compared to being someone else's employee. Planning and budgeting are critical, and you'll have plenty of new tax compliance responsibilities.

1. It starts with funding

Starting a business takes money. To help you gain access to bank loans and attract equity investors, write a formal business plan that tells your backstory, describes your products and services, and highlights your market research. The plan should explain how you intend to use any capital you raise to grow the business and, of course, why your business will be successful.

Because your new business won't have a financial track record, you'll need to create a projected balance sheet, income statement and statement of cash flows using market-based assumptions. Lay out multiple scenarios — including best, worst and most likely results — and identify which variables are critical.

2. Accounting matters

When you set up your business, separate its finances from your personal finances. Commingled financial records can cause tax and financial reporting headaches as your business grows. Next, understand that lenders and investors will want to know whether your business is meeting performance targets. Establish an accounting system to record transactions and generate financial statements that can easily communicate results to stakeholders. We can recommend cost-effective software solutions.

Initially, you may elect to use the cash-basis or income-tax-basis method of accounting to simplify matters. Indeed, it's often easier for start-ups to maintain one set of books for both tax and accounting purposes. However, if you have an accounting background, you may opt for accrual-basis accounting from the get-go.

3. Tax planning is a must-do

Many start-up ventures aren't initially profitable. But it's essential to start planning for taxes from the beginning. One factor that will affect your company's tax situation is its entity structure. Depending on your tax, legal and other needs, you might choose a sole proprietorship, partnership, limited liability company (LLC), S corporation or C corporation.

Know that C corporations pay tax at the entity level, then the individual owners pay tax when they receive dividends. This results in double taxation. To avoid this, you may want to consider a "pass-through" entity. Pass-through income generally isn't taxed at the entity level. Instead, it passes through to the individual owners (along with the business's deductible expenses) and is taxed on their individual returns. However, the top rates for individual taxpayers are higher than the flat 21% rate for C corporations — though the qualified business income deduction for pass-through entity owners can help make up for that.

Another major tax issue to understand is the appropriate tax treatment for your start-up expenses. The timing and amount of expenses are key to determining what's immediately deductible and what costs must be capitalized and amortized over time.

New businesses need to plan for other taxes, too. You may need systems in place to file and pay property, sales and employment taxes. Look into initially outsourcing these administrative tasks to third-party specialists so you'll have time to focus on daily business operations.

4. Estate planning now can save tax later

Another smart consideration if you're starting a business is estate planning. New entrepreneurs often solicit help from friends and family members. In exchange, founders may make gifts of ownership interests while the business's fair market value is relatively low, removing potential future appreciation from their estates.

A business valuation professional can help determine the fair market value of your new business based on objective market data and financial projections. Proactive estate planning at this phase can save significant tax dollars over the long run as the company's value grows.

5. Employees may want equity

Most start-ups operate lean, with only a few employees — each wearing multiple hats. Early employees may agree to forgo high salaries for equity-based compensation, which can help your start-up avoid a cash crisis while still attracting top talent. What's in it for staffers? Business equity can grow into a valuable financial asset. Plus, employees who own equity may feel more invested and, thus, enjoy greater fulfillment.

There are several types of equity-based compensation to consider, including outright transfers of ownership interests in the business, profits interest awards (partnerships, LLCs and S corporations) and restricted stock or stock options (C corporations). We can help you determine the best form of compensation.

Thoughtful execution

Launching a successful business requires more than vision alone. It also calls for thoughtful execution, informed decision-making and ongoing attention to financial and operational details. Approach start-up matters with strategic foresight by consulting legal, financial and tax advisors.

[Return to CTDA This Week Here](#)