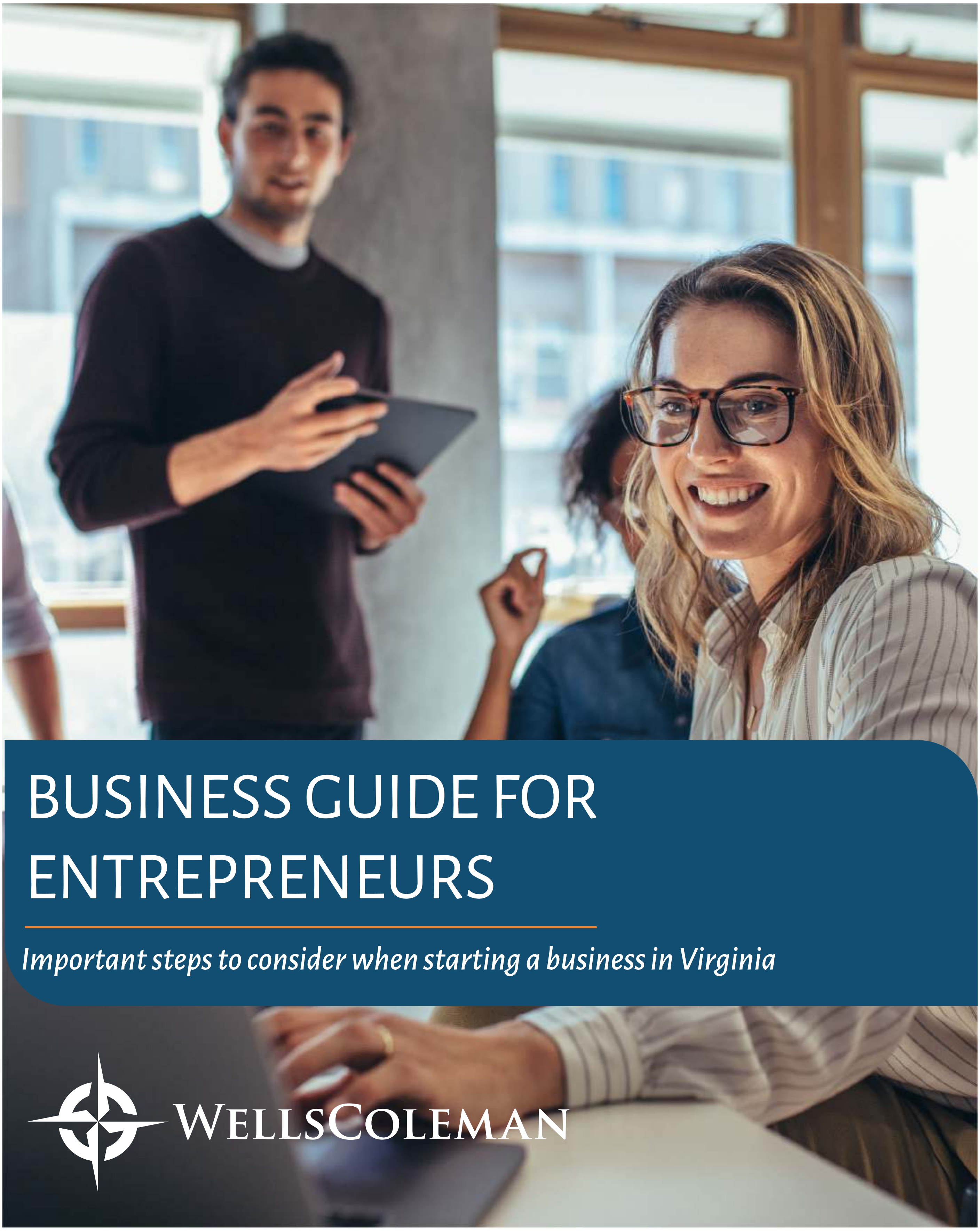

BUSINESS GUIDE FOR ENTREPRENEURS

Important steps to consider when starting a business in Virginia

WELLSCOLEMAN

WELLSCOLEMAN'S GUIDE FOR ENTREPRENEURS

IMPORTANT STEPS TO CONSIDER WHEN STARTING A BUSINESS IN VIRGINIA

Virginia is America's top state for business in 2019 according to CNBC.com, and with the likes of Amazon establishing their second headquarters in the state, more businesses are taking a closer look at what Virginia has to offer. Virginia's lucrative business incentives, high-performing education system, and world-class workforce means Virginia is ripe with opportunity for start-ups and entrepreneurs ready to dive in.

Starting a business in Virginia and making it successful, however, are two different things. Entrepreneurs are often faced with challenges, many of which are not unique to Virginia, when getting their ideas off the ground. Understanding tax obligations to establish a sound strategy and hiring talented staff in a pro-business market are two of the biggest challenges that entrepreneurs encounter today.

Further complicating the process are the myriad of online start-up services that make the process of starting a business seem easy but may not consider the unique and personal factors that influence the early decisions business owners must make. Without proper guidance from the start, new and small businesses put themselves at risk for missed obligations and potentially serious legal situations. With only 50% of small businesses surviving over 5 years, proactive professional advice from the beginning is best practice for ensuring success down the road.

Whether you're starting a business in Virginia, or you've already begun but are lost in the weeds of taxes and compliance, the following steps will help guide the process.

STEP ONE

IDENTIFY A CPA AND ATTORNEY

You have a sound business idea, and you have a plan. Now, it's time to execute. Starting a business from scratch can be daunting but taking it one step at a time and with professional assistance, you can get your big idea up and running. Finding the right CPA and attorney will help you navigate the complex tax and company structure decisions you'll be faced with right from the start. When selecting advisors, here are some recommended considerations:

- Your CPA and attorney should have active licenses and certifications.
- Your CPA and attorney should have proven track records in helping to establish and grow businesses like yours.
- Find advisors who share your enthusiasm for your business.
- Make sure the CPA and attorney you choose have strong, established networks of other types of advisors, such as bankers, insurance brokers, payroll managers, bookkeepers, and recruiters.

Whether you find your CPA and attorney through referrals or an independent search, you will want to make the time to meet with each until you find the relationship that feels right to you.

Helpful Links & Information

- *See the section* ***Set up your accounting/bookkeeping system*** *later in this guide.*

STEP TWO

REFINE YOUR BUSINESS PLAN AND ESTABLISH YOUR BUDGET

Now that you have identified your key advisors, it is time to have them weigh in on your business plan and budget. While there are many online and educational resources with tips for writing business plans, an experienced CPA and attorney can add fresh perspectives and recommendations for refinements. They have likely seen many business plans and can suggest ways to improve it or look for red flags that might cause stumbling blocks down the road.

Additionally, a well-prepared budget can help you stay organized and on track with your start-up's finances. A CPA who knows your industry can help you understand your margins, where to spend your money and where to hold back, and help you get a grasp on your marketplace. They can help establish your budget in your accounting/bookkeeping platform of choice so you can track each transaction and its impact on your budget).

STEP THREE

SELECT FORM OF OWNERSHIP AND EXECUTE ORGANIZATIONAL DOCUMENTS

Choosing the right entity for your business isn't as simple as picking one off a shelf. You must consider tax implications and legal implications. Once you've determined the optimal tax entity for your business, your attorney will help you with the legal paperwork and ensure you're covered in terms of liability, but when it comes to tax implications, it's more complex. And remember, the entity you start with may not be the entity you end with. Pivoting your entity type is not uncommon and might be advantageous as tax laws change. For example, the Tax Cuts and Jobs Act (TCJA) of 2017 changed the landscape for businesses that operate as pass-through entities.

Many businesses begin as an LLC, operated as either a sole proprietorship or a partnership. This entity provides some legal protections with almost unlimited flexibility. However, as a business grows, changing to an S-corporation or C-corporation might improve a business's tax situation.

For smaller businesses, the S-corporation option is often ideal because it allows you to maximize the changes installed by the TCJA and take advantage of greater opportunities for tax savings. S-corporations are pass-through entities meaning the income from the business is reflected directly in the owner's return.

C-corporations were the original corporate tax entities. They offer the greatest legal protection, but this entity type pays its own tax. The owners may receive a salary and might also be paid a dividend from company after-tax profits, which is also taxed. Effectively, owners of a C-corporation are paying tax twice on the dividends received from the business.

While the nuances and complexities of each entity type are greater than what is covered here, the key to determining entity type is the number and type of owners, how you plan for taxes, and whether financing is involved to acquire or capitalize the business.

Improper entity selection can sacrifice legal protection and tax benefits, so proactive planning is essential. Engage your CPA and attorney when going through this process. It's important to choose the most efficient tax entity before selecting your legal form of entity.

Helpful Links & Information

- *www.Business.gov*
- *www.scc.virginia.gov*

EXPLANATION OF EACH ENTITY TYPE AT A GLANCE

SOLE PROPRIETORSHIP

Owned by one individual who owns all assets of the business and receives all profits and assumes complete responsibility for any liabilities and debt of the business. Income is taxed at the owner level on his/her personal tax return.

PARTNERSHIP

Two or more individuals/entities share ownership of a single unincorporated business. Income (loss) is passed through to individual partners.

GENERAL PARTNERSHIP

Responsibility for management and liability as well as the shares of profit or loss are divided according to the partnership's internal agreement.

LIMITED PARTNERSHIP

PARTNERSHIP WITH LIMITED LIABILITY

Limited means that some partners have limited liability (to the extent of their investment) as well as limited input regarding management decisions.

JOINT VENTURE

A general partnership is for a limited time or a single project.

CORPORATION

Typically chartered by the state in which it is headquartered and is considered by law to be a unique entity, separate and apart from those who own it, its shareholders. Income is taxed at the corporate level, unless S-corporation is elected.

S-CORPORATION

A special type of corporation created through a tax election whereby income (loss) and taxes are passed to shareholders.

LIMITED LIABILITY COMPANY (LLC)

A legal structure that provides the limited liability features of a corporation and the tax efficiencies and operational flexibility of a partnership. LLCs can be taxed as a C-corporation, an S-corporation, a partnership, or as a sole proprietorship if only one member.