“Things to Consider”

Several considerations will go into deciding the best business entity or structure to use. The general advantages and disadvantages of the entity itself, whether to do business as a Sole Proprietor/dba, General Partnership, Limited Partnership, LLP, LLC, Corporation, Trust, Association or Non-Profit will depend largely on your goals and objectives. A few others may include the availability or need for start-up funds and other capital, business type, jurisdiction, and taxation.

For instance, do you have the capital or savings to fund your own business? How much money will be required to get the business up and running before its income from goods or services will be sufficient to provide for itself and begin generating a profit? If you do not have the needed capital are you planning to borrow the funds or are you taking on a partner or maybe offering an interest in your business in exchange for an investment? Will this borrowing or investing be done with Bankers, Angel Investors, Partners or Friends, and Family?

Bank funds, although usually the least expensive money from the parties listed above, can be the most difficult to receive. No matter how many TV commercials you see produced by certain big-name banks befriending the small local businessman and aiding him in becoming a thriving business you will be hard pressed to find a real-world example. For the most part, banks lend money to people who can prove they don’t need it. In other words, if you have enough equity in your home or some other asset or income stream that they can attach a lien to, then they may let you use it to raise funds for your business. Then they will lien your business and the equitable property and require your personal guarantee. So if you have excellent credit and equity, then you can get liquid cash most cheaply from the bank and will not need partners or investors. This will make all your business decisions entirely your own.

If you are not in this position or if you find that a lien or the encumbering of your name and assets acquired elsewhere as unacceptable risk against a new venture you may have to move on down the list. Partners may be a way of sharing the risk. Finding others who are excited about the business idea, think it is sound and would like to be a part can help a business get off the ground with limited risk by agreeing what each will contribute and receive if successful. This will allow you also to leave your home and any other property or business ventures outside the risk factors of the new. The compromise, of course, may come with the need to meet the goals and objectives of others besides your own. There are endless stories both horrific and wonderful regarding the success of past partnerships. They are not for everyone maybe not even most. But a Free Consultation with Everything Business, LLC may help you to decide how to make these risks more manageable.

Angel Investors are yet another avenue of raising capital. Like banks, these professional money investors and managers do not hand over money willy-nilly, their rates of interest are steeper, and the control and oversight they seek are usually firm and complete. Unlike the bank, they may not require your home or other assets and will consider the merits of the business idea or invention for which you are seeking funding all of which is good. But a poorly crafted agreement on your part or the accepting of too high an interest rate may quickly make the business theirs rather than yours, and that obviously doesn’t meet your goals.

Another consideration is the raising of capital from friends and family. Whether by taking a loan or by giving them limited non-controlling interest such as a portion of stock in your newly formed Corporation. The advantages are of course raising funds while still owning the lions share and keeping complete control. The disadvantages are the shame involved with failing and losing their money should that occur. We all know money has come between the good relations of many families and friends. This is not to be taken lightly such heartache and turmoil can last years beyond the business venture. The drawback to borrowed funds is that you usually offer a payment plan and schedule and so the need to make these payments adds to the business expenses. The alternative giving stock and part ownership interests take away the need to schedule payments and therefore helps prevent a burden on the business in its early stages. However, the drawback is it is essentially a profit-sharing venture, and because they risked never being paid back, unlike a loan, they instead share in profits forever. These both need to be weighed going in. Certainly, a piece of the pie is better than no pie at all without the funds the pie would never be made.

Another consideration will be what type of business you are conducting. When I speak of what type of entity I am talking about Partnership versus LLC versus Corporation and so on. But when I talk about business type, I am referring to what your business does. Is it a service business providing services as its function like lawn mowing, roofing or house painting? Or Professional services such as accounting, legal or medical offices? There are also manufacturing taking raw materials and producing a finished product. Or sales companies with further divisions between retail and wholesale. What makes up your business market place? Are your customers the general public or a specific segment? Are your customers other businesses? Business to consumer versus business to business may have a direct bearing on the type of entity or in some cases entities that you will choose to establish. For instance, a company which deals directly with a large segment of the public may want to keep the physical inventory and assets of such a company at a minimum and be sure its owners and officers have limited liability. Due to higher odds of complaint or lawsuit a company whose nature is to have many assets such as machinery or other property in order to provide its goods or services may consider having a company with little or no assets up front. This way the Company upfront deals with the public and the high asset company deals only with the up-front company; thereby reducing its direct exposure.

In conjunction with business type, is the consideration of jurisdiction. Should the business be based in your home state or another state? This question is a combination of several factors not only business type but entity type, ownership structure, taxation issues and your goals and objectives for the Company's future and growth. A Company with a vision for future growth with sales in multiple states and jurisdictions will seriously consider the Company's initial registration or incorporation. Some states have laws very favorable to business while others are very burdensome. Many Corporations are formed in business and tax-friendly states such as Delaware, Nevada or Wyoming even though their majority stockholders/owners live elsewhere.

These states charge no state income or sales taxes on its companies sales made outside their state and a limited amount on those made within it. That means, for instance, a Wyoming Corporation can do business in every U.S. State and around the world and owe no income or sales tax to the State of Wyoming. This leaves it with only a Federal Income Tax requirement rather than both a Federal and State Income Tax, as in many other states. A company incorporated in Massachusetts, for instance, would be at a competitive disadvantage to a Wyoming Corporation performing the same services or selling the same product considering that the Massachusetts Company will have all its income taxed in addition to the Federal rate.

The same consideration by the high asset company and its upfront sales to the consumer company described previously would not only save it some income taxes but would further insulate and protect the asset-rich company from its upfront sales company by splitting them into two separate jurisdictions. This would decrease the likelihood of a public consumer, in say Massachusetts, filing suit against the upfront Massachusetts sales company and additionally trying to reach the asset rich manufacturing company of Wyoming, that manufactured and sold the product to the Mass sales company. Because doing so would require the consumer to file suit in Wyoming because the Wyoming Company is not under Massachusetts jurisdiction. Further, the consumer did not actually transact any business with the manufacturer in Wyoming.

Now before anyone jumps on their high horse, I am not advocating consumer fraud or bad business practices. I am a firm believer that whenever possible, the old idea that the customer is always right should be adhered to. Any business person who values their business, their reputation and word should bend over backward to settle any and every complaint and dissatisfaction. When anyone harms or damages another, he should do everything in his power to make it right, reimburse and correct the problem. That said we all know that lawyers and the courts in this country along with excessive and burdensome government regulations are ruining this great nation and driving businesses out and under in droves. We also know that many unscrupulous individuals go around seeking situations or lawsuits that will make them rich. Everything Business, LLC's services cater to starting a business, staying in business and protecting your business. Therefore my examples will tend toward that view. There are plenty of consumer protection books and resources to be found, but that is not the focus here.

If someone sues your business for damages and your business structure prevents him from prevailing against you, great. But if you know you owe him do what's right and pay him anyway. On the other hand, if someone's claim should be for five thousand and they try and collect a million shame on them and hurrah for you when they fail. You will be glad you didn't listen to the liberals frowning on asset protection.

I hope the preceding report or information has been helpful and that it provided you with some information you did not previously have. If you have any unanswered questions or would be interested in exploring further options for business or estate planning please feel free to contact us.

We offer a free first consultation which typically runs from 30 to 60 minutes. In that time we give a short overview of the services we provide and attempt to answer any questions you may have and to discern what services if any that we may be able to provide you with. We are not high pressure and will not ask you to make any purchase or decision during that time.

We will take the information offered by you and prepare a quote or estimate for any services you may have an interest in. We will provide that quote or estimate within a day or two of the free consultation by whatever means you prefer ie email, phone, fax or postal mail. It will be up to you after that whether to contact us again or not. We will not send endless emails, make harassing phone calls, or send continuous junk mail and we will never provide your information to other companies for any reason.

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