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Start-Up Advice

Accountants detail the essentials for establishing a small business.

Apr 3, 2017 | By: Lisa Goulian Twiste, Contributing Writer | [0 Comments](#) |



Starting a business is a daunting process. In addition to the time, sweat and money entrepreneurs pour into their new ventures, many also face concerns about how to handle finances properly – and to their best advantage.

Starting with what type of business structure to choose, and extending all the way to tax

filing procedures, the issues facing start-ups are numerous. Here are some guidelines on how to navigate the process offered by a handful of New Jersey-based accounting experts:

Choosing the Right Business Structure

Choosing a business structure is one of the most important decisions an entrepreneur makes. A sole proprietorship involves one owner who can report business activity quarterly on his personal tax return, while a partnership allows for multiple owners, with business income or loss flowing through to the individual partners' tax returns. Both of these are easy to form with low start-up costs, but neither gives the owner/owners personal liability protection.

While more costly and time consuming to set up, a Limited Liability Corporation (LLC) protects its owner or owners if the business is sued. An LLC requires legal documents like an operating agreement to identify the owners' responsibilities, percentages of ownership, income and loss sharing, and how potential disagreements may be settled. The fourth option is to form a corporation, which includes corporate protection from liability for the owner, transferability of ownership, ease of raising capital and continuity.

"In this day and age, I don't recommend that anyone starting a business do so as a sole proprietor," says Robert A. Fodera, partner, Baker Tilly Virchow Krause, LLP in Iselin. "The protections you can take advantage of by forming as an LLC or a corporation outweigh the cost of establishing those entities."

Experts recommend consulting with a professional to determine the best structure for your business. "Hiring an attorney to help set this up properly is always a good idea," says Michelle A. Ferenchiak, CPA, supervisor, accounting & auditing, at Bederson LLP in Fairfield. "Setting up the best entity now could save you a lot of headache later."

Registering with the State

After filing the necessary formation documents and obtaining an Employer Identification Number (EIN), you need to register your business for various tax filings by submitting the Application for Business Registration (NJ-REG). According to New Jersey's business registration website (<http://www.nj.gov/njbusiness/registration>), this should be done at least 15 days before opening your business. The EIN will often be used to identify and register the company, and to collect and pay sales, payroll and other taxes that may be levied based on the type of business.

Choosing a Bank

Selecting the right bank is a big step in establishing a new business. Sheila Grice, manager at Mazars USA in Edison, recommends asking these questions before making that crucial decision: Will the business need to wire money in/out domestically or internationally? Does the bank offer account types that integrate with QuickBooks or other accounting programs for downloading activity? Does the bank have hours and locations that are convenient to the business? What other tools and services (i.e., business credit cards, online bill pay) does the bank offer to startups/small businesses?

"Finding the right bank to deal with is mainly about developing a relationship with your

counterpart at the bank and making sure the bank understands your business and how it needs to support your operations,” Fodera says.

Types of Accounts to Set Up

Neil Becourtney, CPA, partner, tax at CohnReznick LLP in Eatontown, says a new business – even if it’s a sole proprietorship – needs a checking account to avoid commingling business activity with personal banking transactions. The same goes for credit cards. “If business and personal transactions occur in the same account, it will muddy things, especially if there ever is a tax audit,” he says.

Experts suggests setting up one account for general operations, which may be sufficient when you start a business. If accepting credit card payments, many companies find it easier to have all receipts, chargebacks and other transactions go through a separate account used only for credit cards. Then those funds can be swept from that account to that general operating account.

The Best Way to do Bookkeeping

When it comes to bookkeeping, experts agree that organization is the key to success, and it’s important to implement some type of bookkeeping software from the very beginning. Most leading accounting programs are user friendly and designed to help guide even the most novice business owner, giving the ability to download transactions into the software directly from a bank or credit card company.

Becourtney encourages new business owners to use the IRS web site, www.irs.gov, whose publications are geared for a business owner who is neither an accountant nor attorney. Some examples are:

- Publication 17 – Your Federal Income Tax
- Publication 463 – Travel, Entertainment, Gift & Car Expenses
- Publication 535 – Business Expenses
- Publication 560 – Retirement Plans for Small Business

However, Becourtney adds, “If the business owner is unfamiliar with bookkeeping, then it has to be outsourced. In most instances, the time of a business owner – even one very proficient in bookkeeping – is best devoted to running the business.”

Professional bookkeeping services include everything from posting deposits and disbursements and reconciling bank accounts each month, to invoicing customers and paying bills on a weekly or more frequent basis. As Grice points out, an owner may find it necessary to hire a full-time staff person, though it is often enough to outsource to a bookkeeping service, or staff through a temporary agency.

How Much You Should Borrow

Small businesses often need a loan to get up and running. At the same time, a lender will need some assurance the entrepreneur can pay that loan back, meaning the company may need to present a projection and business plan so the bank can evaluate their credit worthiness. “After you have an established business, it is okay to take out a loan to support the business or to expand operations,” Fodera says. “You do not want to be borrowing money on a long-term basis for short-term items.”

Ferenchiak urges entrepreneurs to be practical when considering how much to borrow. “You should base your borrowing on what you need, and what you can afford to pay back,” she says. “Having a business line of credit is beneficial because it allows you to draw only what you need and helps with cash flow management.”

How to Set Up Payroll

Deciding whether to do payroll in-house or to outsource it is another major consideration for a new business. Many startups tend to outsource this function because it eliminates the need to stay current on payroll tax rate changes, new rules, and other types of compliance. Ferenchiak says the IRS is “cracking down” and cautions small business owners to have all of the proper registrations, as well as all I-9s, W-4s, and any other required documentation on file when they hire their employees.

In addition, consider whether you want to pay employees weekly or less frequently (paying less frequently can save payroll fees), and if you will have salaried or hourly employees. Ferenchiak also suggests setting up an employee handbook that explains what you will offer for holidays, vacations, and sick days as well as the business etiquette you expect and other policies you want implemented.

Choosing the Right Professionals

There is a saying, “It takes a village to raise a child,” and Grice believes this is also true of a successful business. “Build a village of advisors – an accountant, attorney, financial planner, banker, etc. – who can be relied upon to give an objective perspective on important financial matters and help keep the business on track,” she says.

Fodera agrees that professionals should work together to help the entrepreneur get his business off the ground and keep it running smoothly. He believes in hiring an attorney to help your accountant choose the right business structure, as well as make other decisions. “Pick a law firm that has a large business and commercial practice,” he says. “You need the business expertise, not just the ability to form a company.”



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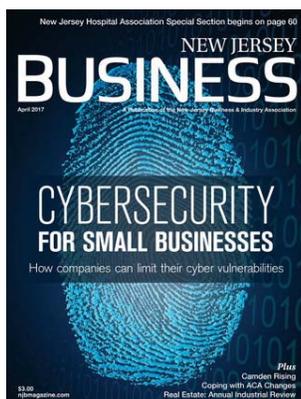
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