

J Leif Jensen and Associates

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Solutions Based Consulting & Certified Public Accounting Firm



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Corporate Entity Types

There are four basic corporate entities options for small business owners, Sole Proprietor, Partnership, S-Corporation or an LLC.

Although, there are other flavors of these types, they are just variations of these four basic entity types. Sole Proprietor, Partnership, S-Corporation or a LLC.

A Sole Proprietor is someone claiming that they are in business. That is all that needs to be done from a legal and tax standpoint. Granted more should be done, but this is all that is needed to start. You then sell your services and keep your records for tax purposes. All transactions are recorded under your social security number if anyone asks for a W-9. Selling products requires registering with the state. You have unlimited liability for mistakes you make.

A Partnership is two or more people getting together and stating that they are in business together. Here you need to do a few more things. You need an EIN for the partnership, the bank will probably want to see a partnership agreement. But each partner is legally responsible for every stupid decision that the other partner(s) make. There is unlimited liability to all parties for all mistakes made.

An S-Corporation is a separate legal entity in and upon themselves. The state has to approve, it needs to be registered with the IRS after and EIN for approval of its S-Corp status. Liability is limited to assets placed in the business, but there are legal requirements that have to be addressed at least annually.

An LLC is a limited liability corporation; a sole LLC is a disregarded entity for the IRS so try to get another to participate or chose a different option. After Organizing, an EIN is necessary, as well as an "operating agreement". This is also a separate legal entity if more than one owner and has limited liability.

These entities all have their pluses and minuses, a well informed decision should be made before jumping into



any entity. There are real costs with some of the entities and risks that may cost, if not addressed properly. Also there are tax implications for all entities as well. For help in deciding what entity may be right for your business let us assist.



Initial Analysis

So you have decided to start that business and are anxious to get moving. Now is the time for your initial analysis of your proposed business. We will assume that you have decided on an entity type and have done all the steps required to get you in good standing with the state and IRS. There are now lots of questions and few answers.

Have you drafted a business plan? Do you have a rough draft of an outline of a business plan? Have you evaluated your service or product? Is there a market for what you want to do or sell? Are you creating a “Blue Ocean” niche that will take the world by storm? Have you developed a patentable product or service? How will your product or service benefit your clients and customers? Will it be a unique experience that can be easily replicated?

Who are your competitors direct and indirect? How does your product or service differ from theirs? How are you pricing your product or service? Is there enough value for the price?

Do you need a location? If so where should it be? Do you need foot traffic? Will you be the destination anchor?

As stated there are many questions and these are just some generic questions that we grill our clients with when they come to us to start their businesses. We work with them to get any and all questions answered. Some benefit from this experience, other learn the magnitude of what they are trying to do and bail. Better to do so early then put time and money into something not worthwhile.

Getting Started

Just as the Initial Analysis comes with a lot of questions that need to be answered, getting started includes the same.

You have a business entity, a business plan, an initial analysis, and a product or service. Now you have to start "unpacking" all the supporting items to help you sell, promote, service and supply your offering.

What does that look like and how do you make it happen?

You have decided upon your entity type and have done your initial analysis, you are now ready to get started with your business. You have your product or service and can now jump in and get started.

Whether you are full time or part time you will need to know where you are going to be physically while working on your business. Will it be at a booth in "Starbucks"? Or will it be in a dedicate space at home; or will you be looking for only the safe harbor for the home office? Or is the plan to utilize a commercial space?

Where is the financing coming from? Is this a low-cost start-up or an initial money pit, where you need to buy equipment, supplies or goods to sell. Most use savings, HELOCs or credit cards. Others can get loans for start-up cash. Banks want three years before they will think of touching you.

Do you have all of the equipment that you will need? A computer (desktop [yes, some of us still use desktops], laptop or tablet), printer, internet, or any specialized equipment.

Do you need staff? Full or part time? Do you have the reserves to front these costs? I know businesses that have started with more employees that I would have only to have to dig deep to cover or fire them.

Starting up my own business was a risk that was worth it, and the rewards have been many. Others would argue the opposite. I have worked with them as they unwound their businesses, only to plan again.



Idiom of the Month:

Flying off the handle

Meaning: suddenly becoming enraged

Origin: This one is said to come from poorly made axes of the 1800s that would literally detach from the handle. Yikes!



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