

Basic business operations for the entrepreneur



Jack Hollingsworth/Stockbyte/Thinkstock

It takes more than skill and hard work to run a successful business.

It takes knowledge about the legal, financial, and operational principles that provide a solid foundation for growth.

In this article, we will explore the fundamentals that are vital to every business – whether you are a start-up or an established operation. And we will offer additional resources that can help you learn more.

Choosing the appropriate legal structure

When you establish a business, your first decision relates to its legal structure. Here are the basic structures to choose from:

Sole Proprietorship

This is the simplest form of organization, because it is the easiest to form and involves the least amount of legal regulation. Usually, a “Doing Business As” certificate secured from the City or County Clerk’s Office is all that is required. Because the sole proprietorship has unlimited liability, all profits and losses belong to the owner. As long as the profits do not exceed a certain amount, there is a tax advantage because the income is taxed at the personal income level. However, a major challenge might be how successful the business becomes. With expanded growth and financial success, the process of operating a sole proprietorship can become challenging.

Partnership

A partnership is an arrangement in which a number of individuals own the business. In both types of partnerships -- general and limited, which also must have general partners -- there is full liability for the debts of the business; however, the limited partner is generally responsible only for the amount he invested in the business.

Limited Liability Company (LLC)

Limited liability companies (LLC) combine the personal liability protection of a corporation with many of the tax benefits and simplicity of a partnership. The primary advantage is that the owners are not usually personally liable for the debts and liabilities of the LLC.

Corporation (C or S)

A corporation is an entity with legal rights that are separate from those of its owners. In a C corporation, earnings are taxed at the corporate level. C corporations may face double taxation as any dividend payments paid out to shareholders incur income tax liability for the shareholders. In an S corporation, most often used by smaller companies, the business is not generally taxed, because profits and losses are passed through to the shareholders who are taxed for their proportionate shares of the corporation’s income. The individual shareholders must then report this flow through income on their personal tax filings. The corporation is responsible for paying taxes on built-in gains and passive income.

[Choosing the appropriate legal structure](#)

[Choosing where and how you will do business](#)

[Complying with regulations and guidelines](#)

[Business formation](#)

[Managing your finances](#)

[Operating your business from day to day](#)

[Talk to Citibank](#)

Continued

Choosing where and how you will do business

Next, you'll want to decide which of the following physical operations your business will need:

Location and facility

When making the decision to lease, buy, or build a facility, consider your goals and the desired end result. Would it be better to lease an existing facility so you won't be tied to a location as your business expands? Or, should you find a facility large enough to house your existing business, with room to expand?

Operational/production equipment and maintenance

Which is the more cost effective method for equipment and maintenance – buying or leasing? What are the advantages and disadvantages of each?

Employees

If you need employees, how many and in what job functions? Should you hire the employees full-time, part-time, or on an "as needed" basis? Do you need a sales force? What are the advantages and disadvantages of the various options? Where will you source potential employees? Are there competitors or similar skilled individuals at other companies?

Professional assistance

Even if you don't need employees, you may sometimes need outside expertise. Fortunately, you can build an infrastructure of professionals to assist you. These professionals can include accountants to help you process taxes, lawyers to address legal issues, and more.

Complying with regulations and guidelines

Federal, state, and local laws and regulatory requirements can affect every aspect of your business venture. It is not possible to list every law and regulation in this article, so we will discuss the fundamental categories of business formation, taxes, intellectual property, legal documents, and insurance. Bear in mind that some types of businesses, for example, food establishments, are subject to substantive regulations that relate to health concerns or other public policy matters.

Business formation

There are many regulations that apply to small business owners. It is best to consult an attorney or CPA to determine the full range of requirements that apply to your business.

The basics include:

Federal Government requirements

- **Employer Identification Number (EIN)**
In order to receive credit for tax payments, you must have an Employer Identification Number, which is issued by the Internal Revenue Service (IRS). To receive an EIN, contact your local IRS office or visit <http://www.irs.gov/businesses/small/article/0,,id=98350,00.html>
- **Employment verification**
If you have employees, you will need to complete Form I-9 - Employment Verification Form. The form is available from the U. S. Customs and Immigration Service, the local IRS, or online at <http://www.uscis.gov/files/form/i-9.pdf>.
- **State Government**
For all state business requirements, visit the Secretary of State website for your state(s).
- **Business registration**
To register to conduct business in a state, you should contact the office of the Secretary of State for a Business Registration Form. There is usually a minimal fee for the registration, which needs to be renewed periodically.
- **Sales tax license**
If you sell retail products and the state in which you sell your products imposes sales tax on these products, you are responsible for obtaining a sales tax license. The application and further instructions can be obtained from that state's Department of Revenue (or Finance or Taxation, as the case may be).
- **Articles of organization**
If your business is an LLC, LP or corporation, you will need to complete and file the Articles of Organization with your state's Secretary of State.

Continued

Local Government requirements

Be sure to file for any applicable permits and licenses in your local City and County.

These may include:

- **Business registration**
Sole proprietorships and general partnerships operating under an assumed name should apply for a DBA (Doing Business As) Certificate. This is usually a one-time requirement. Your local City or County Clerk's office can assist you in identifying applicable local regulations.
- **Permits and licenses**
Make sure your business meets local requirements for business licenses, as well as building codes and permits, zoning laws, health department requirements, and environmental laws. Contact your attorney, CPA, or the City and County Clerk's Office where you will be doing business.

Taxes

Businesses are subject to several types of taxes, including:

- **Income tax**
All businesses file annual income tax returns with the IRS – and possibly with the state(s) where the business operates. Most businesses file a quarterly Estimated Tax Payment (Form 941) during the year, meaning they deposit estimated tax payments as they go and reconcile any differences on their annual tax returns.
- **Employment tax (payroll taxes)**
If you have employees, you will need to collect and deposit employment taxes from their wages/salaries, as well as your employer's share.
- **Self-employment tax**
If you are self-employed, you will be responsible for paying the full extent of FICA and other employment taxes, as noted above.
- **Sales tax reports and payments**
If your business sells retail products and your state imposes sales tax on those products, you are responsible for collecting that tax from your customers and then paying that tax. In some states, certain personal services are also subject to taxation. The sales tax you collect must be forwarded to the state on a monthly or quarterly basis, depending on sales volume. Check with your state Department of Revenue for details.
- **Excise tax**
If you manufacture or sell certain products, operate certain types of businesses, or use certain types of equipment, facilities, or products, you may be required to pay excise taxes. For a current list of those categories, check with your local IRS office.

Intellectual Property

It is important to protect your original ideas and other "intellectual property" with patents, copyrights, and other safeguards.

- **Patents**
A patent gives its originator the right to prevent others from making, using, or selling the patented product or process. Be sure to check out the conditions under which you can apply for and receive a patent at the U.S. Patent and Trademark Office at <http://www.uspto.gov>. You can do an initial search to determine if a patent already exists. Employees could be required to sign a patent rights agreement which confirms that all patents are the property of the employer.
- **Trademarks**
You can establish a trademark by simply using the TM symbol, but it is recommended you have federal registration (®) of the trademark should you ever need legal action. To register, complete the necessary forms with the U. S. Patent and Trademark Office. Visit <http://www.uspto.gov/> for more details.
- **Copyrights**
You can copyright items such as art, books, music, jewelry, software, advertisements, etc. Employees could be required to sign a copyright agreement, and contractors an independent contractor agreement that usually contains a "work for hire" clause to confirm that all intellectual property, including copyrighted material, remains the property of the employer. It is recommended you seek legal advice on these matters.
- **Confidentiality agreements**
Your plans, ideas, communications, practices, and other things related specifically to your business are very valuable and should be protected. So be careful about how and with whom you share these business ideas. If the ideas are important, have all parties sign a Confidentiality Agreement, and take action against anyone who compromises your confidential business information.

Continued

Legal documents

Here is a brief review of the most common legal documents employed by growing businesses:

- **Contracts**

A contract is an agreement between parties, with terms and conditions that constitute a legal obligation of all parties involved. There are many templates for you to use as a reference when developing a contract but remember that each contract must be unique to the situation.

- **Leases**

Leases are contracts that outline the legal obligations that allow a lessor to provide, maintain, and operate a facility or equipment. In exchange, you, as lessee, receive access to the facilities and/or equipment. Read all leases carefully and consult an attorney if necessary.

- **Sales contracts**

The sales contract defines the price, terms, and conditions of the sale of services, equipment, or other products. To establish your business, your sales contracts should represent your business, usually have a standardized look, and generally represent a non-negotiable offer.

Insurance

To protect your business and yourself, consider the following insurance options:

- **Business property insurance**

To protect your property, look into insurance policies that cover losses due to theft, fire, weather conditions, and other events.

- **Business liability insurance**

Business liability insurance protects your business in the event of a lawsuit for personal injury or property damage by not only covering the damages from the lawsuit but may also cover the related legal costs. It can be purchased in the form of general liability, professional liability, and product liability.

- **Worker's compensation insurance**

Depending on your state, this type of insurance requires or allows employers to contribute to a state insurance fund, from which benefits are paid to workers who are injured while on the job.

- **Excess liability insurance**

Excess liability insurance, sometimes known as an umbrella policy, provides additional liability protection in case a judgment against you exceeds the liability limits of your basic liability policy.

- **Employment practices liability insurance**

This is a relatively new form of liability insurance that protects an employer against claims made by employees, former employees, or potential employees by covering discrimination, wrongful employment termination, sexual harassment, and other employment-related allegations.

Managing your finances

Sound accounting is the backbone of your business. Even though you may rely on others to maintain financial records, you need to understand the basics of accounting to protect your interests. The three major financial statements that you should maintain are:

- **Income statement (also known as profit and loss statement)**

The income statement tracks your income over time and calculates your net income; it tells you if the business is profitable or not. Income statements are usually prepared monthly, quarterly, or annually.

- **Balance sheet**

The balance sheet represents a picture of the financial condition of your business, as of a given date. Very simply stated, it shows what your business owns (assets), what your business owes (liabilities), and the difference between the two.

- **Cash flow statement**

The cash flow statement tracks cash on hand. Your business may bring in income or revenue. But if you don't have enough cash to pay your bills, you need to pay attention to cash flow to ensure that your income soon becomes greater than your expenses.

To help improve and manage your cash flow, there are cash management services that speed up access to funds such as remote check deposit and merchant services. Remote check deposit enables you to scan and deposit your checks up to 6 P.M. local time; merchant services gives you the ability to accept checks as well as credit and debit cards, and have faster access to your funds. Other cash management services such as wire transfers help you manage payments.

Continued

Operating your business from day to day

Now that you have established the legal structure, secured the physical operations, and complied with the necessary regulations and guidelines, it is time to take a look at the daily management process.

What happens on a daily basis in your business? Are there established and adopted operations procedures? If so, are they clear to everyone? Are there benchmarks established to regularly assess operations and adjust procedures? Is the interrelationship between the operations evident?

Take the time to carefully review the daily operations within your business, and continually strive to ensure your operations run smoothly. The rewards can be higher productivity, greater profitability, and greater growth.

Talk to Citibank

Establishing and operating a business is an entrepreneurial dream come true. There will be challenges along the way, including the realities of tight cash flow, sales declines, new competition, economic recessions, and employee issues. But, with careful attention and hard work, you can achieve your long-term goals.

For expert guidance, turn to your Citibank Business Specialist. As an experienced small business specialist, he or she can help you make sound decisions to build your business.

Citibank and its employees are not in the business of providing tax or legal advice. This newsletter and any tax-related statements are not intended or written to be used, and cannot be used or relied upon, by any taxpayer for the purpose of avoiding tax penalties or for tax planning purposes, or as legal advice for any particular situation by any particular person or business. Any such taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor and/or attorney. This newsletter summarizes certain general laws and regulations that apply to small businesses and is not intended to be and should not be relied upon for legal advice. You should seek the advice of qualified legal and tax advisors to ensure that your business is conducted in accordance with applicable legal requirements.

For further information, including any applicable fees and conditions, about Citibank products and services that can help you with your new business banking needs, see your Citibank representative for details.