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Four planning considerations for small business owners

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If you are a small business owner or thinking of becoming one, here are some things you should consider.

Choice of Entity: Whether you are just starting out or whether you are an established business, it is never too late to consider your choice of business entity, especially as it relates to income taxes and liability protection.

For income tax purposes, you and your sole proprietorship are treated as one tax payer, while partnerships and S corporations are pass-through tax entities that pass through items of income and deduction to you, and C corporations are separate tax entities on which you pay double tax- once at the corporate level and again when dividends are distributed.

Different entities provide you with different levels of liability protection: sole proprietorships and general partner interests provide little protection, while limited partner interests, member interest in a limited liability company, and interests in a corporation may offer much greater protection against liabilities of the business entity. You may be able to reduce your liability exposure with insurance coverage.

Financing for your business: An important ingredient to a successful business is adequate financing (capital). The failure to acquire adequate financing often determines whether a business can get off the ground, not to mention whether I can sustain itself after it does.

Generally, there are two ways to capitalize your business. You can borrow money (debt) or, if you don't mind sharing ownership, you can find investors willing to provide the funds you need in exchange for a "piece of the pie" (equity). Debt must be repaid. Equity, however, generally does not: it is simply exchanged for an ownership interest in your business. Which method, or combination thereof, is right for your business depends upon (among other things) how much money you need, your financial situation, what type of business it is or will be, and how much control over the business you are willing to surrender to others.

Sources of financing for your small business might include yourself, your family and friends, banks, credit unions, small business administration related programs, angel investors, venture capital, public offerings, or private placements.

Business record keeping: You can keep your own books, or hire someone, such as an accountant to keep them for you. There are many commercial record keeping systems available. Keeping good business records will not only help you stay in business, but may also help you increase profits. Your business records let you analyze where your business is and where it's going. They point out potential trouble spots and serve as a guide to where you want your business to be.

But they aren't just for your own benefit. You will need good records if you wish to borrow money, if you co-owners, or wish to encourage new investment in your business, if you'd like to facilitate tax filing and payment, and if you decided to sell your business.

Business succession planning: Every successful business owner must eventually face the question: What will happen to my business when I become disabled, retire, or die? Sooner or later, you will generally need to identify someone to transfer your ownership interest to among family members, co-owners, key employees, or an outside party. You will need to consider whether you wish to sell the business, possibly using a buy-sell agreement or an installment sale, or whether you wish to give the business away; you might even use some combination of these techniques. Without a succession plan, the business may need to be liquidated and all your hard work may go down the drain.

Securities offered through LPL Financial, Member FINRA/SIPC.

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This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

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