Rule of Thumb Series

Guide to Small Business Basics
Right Reason for Getting Into Business

- Be Passionate and Belief Strongly in What You are Doing
- Know Your Physical and Mental Stamina Threshold
- Have Drive, Determination and Patience
- Learn Lessons from Mistakes
- Thrive on Independence – Be Disciplined and Take Charge
Most people enter business because they know how to do something.

The biggest disadvantage is that they have not thought through:

- Mission
- Strategic (business) Plan
- Operational Strategy
- Marketing Strategy
- Management Strategy
- Funding Strategy
Business Decisions Start With Tax Decisions

- **Business Structure**
  - Sole Proprietor
  - Partnership
  - Corporation
  - S Corporation
  - Limited Liability Corporation

- **Accounting Method**
  - Cash
  - Accrual
Sole Proprietor
- Best for starting out
- 15.3% tax on business profit plus individual income tax

LLP
- Requires attorney to set up
- Actions determined by business, not individual
- Length determined by contract

LLC
- Requires attorney to set up
- Most popular form of business
- Can be registered in multiple states
- Can only be one person
  - 2 forms of administration:
    - Members can obligate the company
    - Manager can obligate the company
Grow Your Business Not Your Taxes

- **S Corporation**
  - Must have no more than 100 shareholders, Board of Directors
  - Always exists
  - No self-employment tax; dividends from company are taxable to shareholders

- **Corporation**
  - Must have similar structure (shareholders, Board) but also officials of the corporation
  - Corporation files own tax return; dividends taxable to shareholders
Good Management

- Have Management Expertise in:
  - Finance and Operation
  - Purchasing
  - Sales and Marketing
- Don’t Neglect Business Matters
- Learn to be a Good Leader
  - Create Positive Work Environment
  - Understand Good Hiring Practices
  - Be Ready for Change
Claim the Tax Credits!

- Earned Income Credit
- Other Credits
- Affordable Care Act Small Business Credits
- A few examples to fill in the gaps...
So Who is Missing Out?

Self-employed

EITC Recipients

other self-employed, disabled, or other eligible
Be Capitalized

- Have Funds For Start-up and **Operating**
- Don’t Underestimate How Much You Need
- Don’t Over Estimate Revenues
- Plan For The Worst
Start-Up Funding Sources

- Personal Savings: 52%
- Start-up--All Enterprises
  - Asset-backed Loans: 16%
  - Bank Loan: 15%
  - Loan-Friends: 4%
  - Other Resources: 2%
  - Personal Loans: 9%
  - Credit Cards: 2%
Start-Up Funding Sources

- Personal Savings: 58%
- Bank Loan: 19%
- Personal Loans: 12%
- Other Resources: 1%
- Loan-Friends: 3%
- Credit Cards: 5%
- Asset-backed Loans: 2%

Start Up--Low Wealth

Rule-Of-Thumb.biz
Show Me the Money!

- Non-profit lenders
  - Micro-enterprise Developers (Catholic Charities-Juan Diego, Neighbor Works, NEF) Loans: $250-3500, some help for larger, interest rates in 7-10% range
  - Economic Development Corporations (Omaha Small Business Network, Omaha CDC, MLCDC) Loans: $1K- 10K, some leeway for bad credit, some additional requirements

- Commercial Lenders
  - Look more intensely at credit, cash and collateral
  - Risk assessment: 42% expenses vs. income limit
  - Capacity for repayment
  - Loans generally smaller than $50,000
Community Lenders
- Unique programs for certain demographics
- Grameen America: micro-loans (less than $1500) for women, pooled resources, education, collaboration, clustering

Government Lenders
- Small Business Administration
- Heavy reporting, audit requirements, need strong management
Business Development Funding Sources

- Property Leases: 16%
- SBA Loans: 9%
- Asset-Backed Loans: 6%
- Other Sources: 6%
- Loans-Start-up: 5%
- Credit Lines: 8%
- Credit Cards: 6%
- Venture Capital: 10%
- Bank Loans: 9%
- Supplier Credit: 16%
- Family Loans: 6%
- Personal Loans: 3%
Business Development Funding Sources

- Property Leases: 10%
- Gov't Loans: 2%
- Asset-Backed Loans: 7%
- Other Sources: 6%
- Loans-Start-up: 5%
- Credit Lines: 13%
- Credit Cards: 5%
- Bank Loans: 8%
- SBA Loans: 4%
- Supplier Credit: 14%
- Personal Loans: 12%
- Low Wealth Development: 6%
- Family Loans: 6%
- Loans-Friends: 1%
- Venture Capital: 7%
Prepare and Plan

- Create a Business, Strategic and/or Marketing Plan
  - Be Realistic
  - Have Accurate Projections
  - Use Past History Or Market Research (when available)

- Include:
  - Mission, Vision and Goals
  - Problem and Solution Scenarios
  - Financial Needs and Outcomes
Understand Your Market

- Know Your Customers
  - Where They Live
  - Their Demographics Information
  - Why They Buy From You

- Watch Competition
  - Understand Who Their Customers are

- Be Involved in Community
  - Word of Mouth Travels Fast
Keep Good Records

- Car Expenses
- Travel Expenses
- Business Use of your Home
- Entertainment Expenses
- Employee and/or Contractor Expenses
- Receipts & Sources
- Deductible expenses
Measured Growth is Good Business

- Don’t Confuse Success with Expansion
- Research and Analysis Before
- Expand when Time is Right
  - Do you have operations in place to handle expansion?
  - Are there enough sales to sustain future growth?
  - Do you have all the resources needed to expand?
Formalizing Your Business

- Get the accounting and tax counseling you need
- Have a federal and state employer identification number
- Pay sales, payroll and property taxes on time
- File the appropriate tax schedules on time
- Network and join relevant associations, chamber(s), and professional organizations
Have an Digital Presence

- Have Some Type of Web/ e-Presence
  - Almost a requirement in today's market
  - Gives you much space to explain products and services
  - Can lead to potential customers

- Watch Draw Backs
  - Takes time to manage
  - Is a reflection on your organization
At Your Service

Michael Mitilier, CEO
Small Business Association of the Midlands
O/C: (402) 968-7587
michael@sbamidlands.org
www.sbamidlands.org

Ed Leahy
Director, Omaha EITC Coalition
3605 Q Street
(402) 250-9781
omahaeitc@cox.net