

New Business Set Up and Analysis

Starting a new business is a very exciting and busy time. There is so much to be done and so little time to do everything and to make all the necessary decisions, let alone stay current with the paperwork. That's where we can help. There are a variety of federal and state forms and applications that will need to be completed to get your business started.

Federal ID Number

Securing a federal ID number needs to be accomplished first since many other forms require it. After form SS-4 is complete the IRS can be called to get your Federal ID#. After the completed form is mailed to the IRS, you will receive federal tax coupons which are needed for payroll tax deposits.

State Withholding, Unemployment, and Sales Tax

You will then need to fill out forms to establish your account with the State for payroll tax withholding, Unemployment Insurance Registration, and sales tax collections (if applicable).

Payroll Record Keeping

Payroll reporting and record keeping can be very time consuming and costly, especially if not handled correctly. Let our expertise handle that part of your business so you can concentrate on running your business. Also keep in mind, almost all employers will be required to transmit their federal payroll tax deposits electronically. You should keep personnel files for each employee. Included should be the employee's employment application as well as the following:

W-4 Form - completed by the employee and used to calculate their federal income tax withholding. Also includes necessary information such as address and social security number.

I-9 Form - required to be completed by you, the employer, to verify employees have permission to work in the U.S.

The next few pages give you some detail on the "Advantages Incorporating" and "Advantages of Limited Liability Companies (LLC)".

Please contact us for details and to schedule an appointment at 734-471-3161 or E-mail us at info@pfaltd.net

Advantages of Incorporating

Why Incorporate?

All legal and tax professionals agree, if your business is not incorporated you may be throwing away thousands of dollars in tax savings and deductions.

In addition, all of your personal assets such as your home, cars, boats, savings and investments are at risk and could be used to satisfy any law suits, debt or liability incurred by the business. Forming a Corporation can provide the protection and tax savings needed to give you peace of mind and make your business even more successful and profitable.

Some Benefits:

Liability Protection: Properly forming and maintaining a corporation will provide personal liability protection to the owners or shareholders of the corporation for any debt or liability incurred by the business. Personal liability of the shareholders is normally limited to the amount of money invested in the corporation.

Tax Advantages: Another important benefit is that a corporation can be structured many ways to provide substantial tax savings. You can minimize self-employment taxes and increase the number of allowable deductions lowering the taxes you pay on the income of the business. Many corporations structure retirement and tax deferred savings plans for their owners and employees which can provide even greater tax savings.

Raising Capital: Sale of stock for the purposes of raising capital is often more attractive to investors than other forms of equity sales. A corporation can also issue Corporate Bonds to raise capital for expenditures without compromising the ownership of the business.

Some other advantages include:

- A corporation's life is unlimited and is not dependent upon its members. If an owner dies or wishes to sell their interest, the corporation will continue to exist and do business.
- Retirement funds and qualified retirement plans (like 401k) may be set up more easily with a corporation.
- Ownership of a corporation is easily transferable.
- Capital can be raised more easily through the sale of stock.
- A corporation possesses centralized management.

Advantages of Limited Liability Companies (LLC)

Combining the best aspects of Partnerships and Corporations

A Limited Liability Company, or LLC, is not a corporation, although it offers many of the same advantages. An LLC is best described as a combination of a corporation and a partnership. LLCs offer the limited liability of a corporation, while allowing more flexibility in managing the business and organization.

An LLC does not pay any income tax itself. It's a "flow through" entity that allows profits and losses to flow through to the tax returns of the individual members. Avoiding the double taxation of C-Corporations.

While setting up an LLC can be more difficult than creating a partnership (or sole proprietorship), running one is significantly easier than running a corporation. Here are the main features of an LLC:

Limited Personal Liability

Like shareholders of a corporation, all LLC owners are protected from personal liability for business debts and claims. This means that if the business itself can't pay a creditor -- such as a supplier, a lender, or a landlord -- the creditor cannot legally come after any LLC member's house, car, or other personal possessions. Because only LLC assets are used to pay off business debts, LLC owners stand to lose only the money that they've invested in the LLC. This feature is often called "limited liability."

While LLC owners enjoy limited personal liability for many of their business transactions, it is important to realize that this protection is not absolute.

LLC Taxes

Unlike a corporation, an LLC is not considered separate from its owners for tax purposes. Instead, it is what the IRS calls a "pass-through entity," like a partnership or sole proprietorship. This means that business income passes through the business to the LLC members, who report their share of profits -- or losses -- on their individual income tax returns. Each LLC member must make quarterly estimated tax payments to the IRS.

While an LLC itself doesn't pay taxes, co-owned LLCs must file Form 1065, an informational return, with the IRS each year. This form, the same one that a partnership files, sets out each LLC member's share of the LLC's profits (or losses), which the IRS reviews to make sure the LLC members are correctly reporting their income.

LLC Management

The owners of most small LLCs participate equally in the management of their business. This arrangement is called "member management."

The alternative management structure -- somewhat awkwardly called "manager management" -- means that you designate one or more owners (or even an outsider) to take responsibility for managing the LLC. The non-managing owners (sometimes family members who have invested in the company) simply sit back and share in LLC profits. In a manager-managed LLC, only the named managers get to vote on management decisions and act as agents of the LLC.

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