

Starting a Small Business - THE FIRST STEPS Reference Guide



A University of Missouri Extension Partner

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INTRODUCTION

Determining the requirements to start a new business can be confusing and time consuming because so many agencies regulate various aspects of business operations.

Designed to be an easy to use reference on starting a new business, this guide outlines the basic requirements for starting a business in the state of Missouri. There are basic requirements with which all businesses must comply no matter the type of business. In addition, this guide covers some of the essential planning steps to be taken before starting your business.

Do not underestimate the importance of planning. While it is possible to start with minimal planning, successful businesses typically have a plan, know their market, their customers and have a good understanding of the financial requirements of the business.

If you have questions or require additional information, assistance is available from the Missouri Small Business and Technology Development Centers throughout the state. Go to www.missouribusiness.net/sbtdc/centers.asp to find an office near you.

Disclaimer

This publication is intended to serve as a reference document and in no way attempts to provide all of the information necessary to start a business in Missouri. It is published with the understanding that the publisher is not engaged in rendering legal, accounting or other professional services. The advice of an attorney and/or accountant should be sought before entering into any business activity or contract.

Owning and operating a small business can be a fulfilling and rewarding way of life, but it is not always an easy one. Do not make the decision lightly. A great deal of thought and research should go into making a decision that will affect you and your family for a long time to come.

Consider that:

- The failure rate for new start-up businesses is high.
- If you need financing, you will be expected to provide 20 percent or more of the total funds needed.
- Small business owners spend many long hours every week on business activities.
- To obtain a business loan you will be expected to guarantee personally repayment.
- It is normal for small businesses *not* to earn a profit in the first two years.
- After failing to plan, the number one reason that small businesses fail is they did not have enough cash to survive the first two years of operation.
- Grants to start a for-profit business enterprise are virtually non-existent. Even not-for-profit businesses can expect intense competition for funding.

Good management is key to a successful business. The chances for success are improved if you have abilities in the following four crucial areas:

Marketing strategies – Developing market strategies requires knowing the type of product or service your customer wants, who those customers are, how reach your customers, and how to sell your product or service at a price your customers are willing to pay that provides the profit you need.

Technical ability – You must consistently get the work done when expected and correctly to have satisfied customers. Your technical knowledge of the product or service you provide is essential.

Financial knowledge – Financial management is required to plan and control your business' cash flow, raise or borrow the money you need, and get through tight periods without being caught short of cash. Your credit history is one measure of your ability to manage money. A poor credit history will reduce your ability to obtain financing.

Managerial skills – The business owner is responsible for everything the business does or fails to do. In addition to the abilities and skills listed above every business owner has many other responsibilities. Managerial skills can be broadly defined as the ability to manage efficiently and effectively everything required of the business. Some examples of these skills include human resources, facilities management, bookkeeping, planning, and dealing with suppliers.

If you do not have any of these skills, you can obtain these through training and education. You can also hire employees with these skills, but remember you must have enough working knowledge to ensure you can double check what your employees or out-sourced services are doing and telling you.

REGISTERING AND LICENSING A BUSINESS

Register the name of your business with the Secretary of State (573) 751-4936 by filing the necessary forms. The way to register a name is different for each type of legal structure. Legal structure choices are sole proprietorship, partnership, limited partnership, limited liability partnership, limited liability company (LLC), or corporation. A discussion of the issues involved in the legal formation of your company can be found at:

www.missouribusiness.net/sbt/dc/doingbusiness/legalform.pdf. Each legal structure has unique registration requirements, which are outlined below:

- *Sole Proprietorship and Partnerships* - file a "Fictitious Name Registration."
www.sos.mo.gov/business/corporations/forms.asp
- *Corporations and LLC* - file the articles of incorporation or articles of organization (LLC), which can be found at: www.sos.mo.gov/business/corporations/forms.asp
- Information on federal requirements on LLCs can be found on the web at:
www.irs.gov/pub/irspdf/p3402.pdf
- S-corporation status - Requires that you form your Missouri corporation or LLC and also file IRS Form 2553: www.irs.gov/pub/irspdf/f2553.pdf

To check on the availability of a LLC or corporate name, you can search the Secretary of State's database online at: [www.sos.mo.gov/BusinessEntity/sos kb/csearch.asp](http://www.sos.mo.gov/BusinessEntity/sos_kb/csearch.asp)

- ❑ Obtain **local business licenses** through the city or county government (generally, this is the city clerk or county clerk). Check your local phone book or city/county websites for the phone number.
- ❑ A **sales tax number** or use tax is needed if you will be selling at retail. Collection of sales tax is required by any business making retail sales. Those businesses operating solely as a wholesaler should complete a Form 149 Sales/Use Tax and provide it to their supplier. Go to the Missouri Department of Revenue site at: <http://dor.mo.gov/business/register/>, or call (573) 751-5860 to get a sales tax number or sales tax exemption.
- ❑ **Federal Employer Identification Number (EIN)**. Most often required of all businesses, to include partnerships, sole-proprietors who hire employees, corporations or LLCs. A sole-proprietors with no employees do not require an EIN; however, your bank may require an EIN to open a business account. Go to the IRS web site at <https://www.irs.gov/businesses/small-businesses-self-employed/do-you-need-an-ein> to determine if you need an EIN and go to www.irs.gov/pub/irs-pdf/fss4.pdf to get form SS-4 to request one.

PROFESSIONAL SERVICES

As a business owner you are responsible for everything your business does or fails to do. You must have a working knowledge of everything in your business, even if you are not an expert. It is highly encouraged that you build a team to provide the expert knowledge you need to properly structure, organize, operate and lead your business. Some key team members are discussed below.

LAWYER

Your lawyer should be experienced in business matters. Ask for recommendations from business owners or other trusted sources such as your banker or your local chamber of commerce. In the initial interview discuss fees and ask about their experience with businesses similar to yours. A reputable lawyer will welcome an open discussion on both subjects. Do not feel obligated to hire the first lawyer with whom you discuss your business. Find one with whom you are comfortable and you feel you can trust.

Contact the Missouri Bar Association for information on finding legal assistance. They can be reached at (573) 636-3635. You can also use their lawyer search feature at <http://missourilawyershelp.org/find-lawyer/>. For the Springfield area, you can call (417) 831-2783.

ACCOUNTANT

Although an accountant is not mandatory for starting a new business, it is highly recommended that one you consult with one. Again, seek recommendations from your lawyer, banker and other business associates. Do not feel obligated to hire the first accountant that you interview. For assistance in locating an accountant, contact the Missouri Society of Accountants, 6132 Blue Ridge Blvd., Raytown, Missouri 64133 at (800) 959-4276 or <https://www.missouri-accountants.com>

INSURANCE AGENT

Insurance is one means of protecting your business. You should consult with an agent to determine your needs, options and costs. Depending on your situation, you may need to work with different agents to obtain the coverage you need. As with other professionals, do not feel obligated to hire the first one you meet with. Ask others in business, the attorney, individuals you trust for referrals. To verify if a company is properly licensed you can search at this website <https://insurance.mo.gov/CompanyAgentSearch/search/search-companies.php> or call the Insurance Consumer Hotline at (800) 726-7390.

OTHERS

Depending on your specific requirements any number of other professionals could be needed or provide assistance in starting your business. An SBTDC business specialist or counselor, contractor, engineer, or appraisers are some examples.

RECORD KEEPING

An accounting system provides an organized method to track all financial transactions of the business and provides the information required by taxing and regulatory authorities.

Sound accounting practices can mean more profits because it provides a tool to evaluate the performance of your business. The system used should accomplish the following:

1. Maintain a record of all business transactions.
2. Provide financial statements (profit and loss statement, balance sheet, cash flow statement and key financial ratios) that show operating results and the company's financial condition.
3. Protect the assets of the business from errors, fraud and carelessness.
4. Provide a basis for business planning by showing the results of past decisions and facts needed for future decisions.
5. Generate information that is periodically required by taxing and other regulatory authorities.

There are numerous computer software programs on the market as well as accounting forms and systems. Many trade associations offer standard accounting systems for member businesses. The Missouri Small Business and Technology Development Centers offer classes (www.missouribusiness.net/sbt/dc/training/) on financial management. If you wish, you can consult an accountant for assistance in setting up an accounting system, or hire one to do your books for you. If you need assistance in locating an accountant, you can contact the Missouri Society of Accountants at (800) 959-4276.

BUSINESS REGISTRATION CHECKLIST

As you prepare to register your business, please use this checklist to ensure that you have the information needed to successfully complete your registration. The links provided at the end of each section will take you to web sites that can provide a more detailed explanation of the information required.

NAME CHECK

Before drafting articles of organization or incorporation, it is imperative that you check the availability of the desired business name with the Secretary of State's office,

<https://bsd.sos.mo.gov/BusinessEntity/BEsearch.aspx?SearchType=0>

OWNERSHIP

Ownership type - Review legal formation guidelines to select the proper business structure for you at

<http://www.missouribusiness.net/doingbusiness/legalform.pdf>

Business structures recognized by Missouri include:

- Sole proprietorship
- Partnership
 - General partnership
 - Limited partnership
 - Limited liability partnership
- Corporation
 - Closed corporation (C-corp)
 - Subchapter S corporation (S-corp)
 - Not-for-profit corporation
 - Professional corporation
 - Foreign corporation (e.g., out-of-state corporation doing business in Missouri)
- Limited liability company (LLC)

Most businesses that are sole proprietorships and general partnerships must file a fictitious name to be registered with the Secretary of State's office. Missouri law requires any person or business entity that transacts business in the state under a name other than their own "true name" to register that business name with the Secretary of State's office as a fictitious name. For a sole proprietorship or partnership, a business name is generally considered "fictitious" unless it contains the last name and a recognizable form of the first name of the owner or all of the general partners and does not suggest the existence of additional owners. For example, use of a name which

includes words like “company,” “associates,” “brothers,” or “sons” suggest additional owners and makes it necessary for the business to file a fictitious name registration.

All Missouri corporations, limited liability companies, limited partnerships, and limited liability partnerships are required to register with the Secretary of State’s office. In most cases, foreign entities are required to register; however, you may want to consult with an attorney or an accountant to determine if your business meets one of the exemptions.

If registering as a Limited Liability Company (LLC), you will need to select:

- Management by manager or members
- Tax type: Partnership, Sole Owner, Corporation

If Limited Partnership (LP), you will need to provide:

- General Partner and Limited Partner information and other matters the general partners want to include

If Limited Liability Partnership, you will need to provide:

- The number of partners

If already registered with the Secretary of State, you will need registration or charter number and date of registration or charter. If non-Missouri corporation, need certificate of authority number, registration/charter date, and a certificate of good standing not more than 60 days old from the state of incorporation

If exempt from registering with the Missouri Secretary of State, need to state why.

For more information, refer to the Secretary of State’s Starting A Business page at

<http://www.sos.mo.gov/business/corporations/startbusiness.asp>

REGISTERED AGENT

A Registered Agent is the person or business to which the Secretary of State will send notices, reminders, or correspondence. A Registered Agent may be one of the business owners or some other individual or corporation. If you use a Registered Agent, you must provide the name and address of the registered agent.

For more information, refer to the Secretary of State’s FAQ page regarding Registered Agents at

<http://www.sos.mo.gov/business/corporations/faqs.asp#toc2>

FEDERAL EMPLOYER IDENTIFICATION NUMBER

If required to register your business with the Internal Revenue Service (IRS), you will need to have the Federal Employer Identification Number (FEIN or EIN) for your business. The IRS requires most businesses that employ workers, including all corporations, to have an EIN.

For more information, refer to the IRS website at <https://sa.www4.irs.gov/modiein/individual/index.jsp>

BUSINESS NAME AND ADDRESS INFORMATION

Legal business name

Mailing address (including county)

Physical location (if different)

Telephone number

OWNER, OFFICERS, PARTNERS, MEMBERS OR SPOUSE (OF SOLE OWNER) INFORMATION

Name

Title

Effective date of title

Social Security Number (SSN) and birth date for individual(s)

Home address

City, county, state, zip code

Percent of ownership

Duration of business

The events, if any, on which the business is to dissolve or the number of years the business is to continue. May be any number or perpetual.

The answer to this question could cause possible tax consequences. You may wish to consult with your attorney or accountant.

IF PURCHASED BUSINESS FROM A PREVIOUS OWNER

Previous owner's name

Date purchased

Previous business name, address, Missouri tax ID number, FEIN

Purchase price and what was purchased

Percentage of previous business purchased

Common ownership, management or control between previous owner and new owner

If purchasing a business ensure you obtain a "No Tax Due" letter, otherwise you will assume all tax liabilities of the business you purchase. For more information go to: <https://mytax.mo.gov/rptp/portal/home/business/no-tax-due-selection>

IF APPLYING FOR SALES/USE TAX

Estimated monthly sales

Type of sales – tangible personal property or taxable service sold at retail. Use tax is imposed on the storage, use or consumption of tangible personal property.

For more information, see the Department of Revenue's Sales and Use Tax page at <http://dor.mo.gov/business/sales/>

NOTE: Your application can be processed, but a sales/use tax bond is required before a license can be issued. To compute the Sales Tax Bond, you can use the Department of Revenue's Sales/Use Tax Bond Calculator at <https://mytax.mo.gov/sales tax calculator>

IF REGISTERING FOR WITHHOLDING

Estimated monthly wages

EIN (unless you are hiring a household employee)

For more information, see the Department of Revenue's Employer Withholding page.

<http://dor.mo.gov/business/withhold/>

IF REGISTERING FOR UNEMPLOYMENT TAX

First date worker(s) hired

First date worker(s) paid

Amount of wages paid quarterly and/or to-date

Average number of worker(s)

Number of weeks per calendar year worker(s) have been employed to-date

For more information, see the Department of Labor and Industrial Relations Unemployment Insurance Tax page,

<https://labor.mo.gov/DES/Employers>

IF LEASING EMPLOYEES

Name, mailing address and contact telephone number of leasing company or client

Date agreement began

Date agreement ceased

Number of worker(s) that are not covered under the agreement

For more information, refer to the Department of Labor and Industrial Relations Unemployment Insurance Tax page, <http://labor.mo.gov/DES/Employers>

STATE PERMITS & PROFESSIONAL REGISTRATIONS

If you have not already done so, you may need to obtain state permits relevant to your business. You can use the Missouri Business Portal to determine which specific permits/licenses are required for your business at <http://business.mo.gov/register/index.html>.

The Missouri Division of Professional Registration exists to serve and protect the public from incompetency, misconduct, gross negligence, fraud, misrepresentation or dishonesty by providing an accessible, responsible and accountable regulatory system that licenses only qualified professionals by examination and evaluation of

minimum competency and enforces standards by implementing legislation and administrative rules. Professions that require state registration or licensing can be found at <http://pr.mo.gov/professions.asp>.

There may also be local licenses required.

CITY AND COUNTY LOOKUP

To obtain information on City, County and Health Agency for your area, you may use the City and County Government page, <http://www.mo.gov/government/city-county-government/> Contact information for counties, cities and municipalities are listed. It is your responsibility to obtain the necessary business licenses from those agencies.

Starting a business is a dream for many. Converting that dream into a reality is challenging and risky. The following three tools guide you through an initial analysis of your idea and will help you determine if you want to proceed with the necessary detailed planning. They will also provide a foundation for your planning. You can use any or all of them but it is suggested that you work through them in the order presented.

BUSINESS MODEL CANVAS

Many startups or new product introductions fail because entrepreneurs put all their faith in the idea of the product without first testing it. Modifying a famous phrase, many believe that “if we sell it, they will buy it and we will get rich!”

Successful new businesses seldom go to market with their first idea; instead, the complete business concept or model has usually gone through several iterations before arriving at the final version. The business model canvas provides a methodology to conceptualize a complete business model. It creates a hypothesis that can be tested and adapted before investing the time and effort to do a complete and detailed business plan.

The business model canvas categorizes the processes and internal activities of a business into 9 separate categories, each representing a building block in the creation of a new business or product/services. These categories represent the four major aspects of a business:

- The customers
- The product or service offering
- The infrastructure to produce and deliver the product or service
- The financial viability

The 9 categories are:

1. Customer Segments: Who are your customers, how can they be categorized and what are the most important drivers in their selection of a business to solve their problem.
2. Value Propositions: What is it that your product or service does that makes it the best solution to your customers’ problem. Value propositions must be specific to each of your customer segments.
3. Channels: How will you put your product in the hands of your customers, based, in part, on what your customers’ value?
4. Customer Relationships: How will you interact with your customers in ways that they want to create the awareness that you are the best solution to their problem, to make the sale, resolve issues and complaints, receive feedback, etc?
5. Revenue Streams: What are the processes by which you will make money from the sale of your product or service?
6. Key Resources: These are the assets of the organization fundamental to how it provides value to its customers. Resources can be categorized as human, financial, physical and intellectual.
7. Key Activities: The work or actions taken to deliver on your value proposition.
8. Key Partnerships: Who or what is needed from others to produce, deliver and service both your value proposition and all the supporting processes needed to make and keep the business successful.
9. Cost Structure: It one thing to make a sale, it is another for the sale to be profitable. This category addresses all revenues and expenses associated with operating the business.

The business model canvas is a tool to develop your businesses concept and then test it. Focus first identifying and understanding your customer segments and value proposition, commonly called customer discovery. You will probably go through several iterations before arriving at a value proposition that works for your target segments.

Remember the canvas has identified a concept that appears to work, but detailed planning will be required to validate the entire concept.

EVALUATING YOUR BUSINESS IDEA©

By working through this list of questions, you will be able to determine if your idea has the potential to create a successful business. Ideally it is used after you have developed your business concept. If you start with this tool, when finished it is recommended that you use the 9 categories of the canvas to review your answers.

The questions you are attempting to answer is "Can my business sell enough products or services to make a sufficient profit to be successful?" You will then be a step closer to making an educated decision about going ahead as you planned or making some critical changes to allow you to reach your goals. This is only a beginning and should not be considered as the final word when determining the feasibility of a new business venture.

1. Describe what you are selling and how it will benefit your customers. Explain how your product or service is different from the competition. Answer the question, "Why will people buy from me?"

2. Briefly describe your management/technical experience with your product/service:

3. Which category best represents your primary group of potential customers?

General Public Businesses Government Specific Industry

4. Select the criteria below that best represents the demographics of your customer:

If selling to businesses, which category(s) represent your primary customers?

Agriculture/Forestry/Fishing Mining
 Construction Manufacturing
 Finance/Insurance/Real Estate Retail Trade
 Services Transportation/Communication/Public Utilities
 Wholesale Trade Other: _____

If selling to the general public, profile your customer by answering the questions and checking the boxes that apply below:

What is the percentage of the population that uses your product/service? _____%

Is your product designed for a: mass-market specialty market

Customer Age: Under 18 18 – 34 35 – 55 55 +

Sex: Male Female Both

Race/Ethnicity: White Black Asian Hispanic Origin Other

Household Income: Under \$25,000 \$25,000 to \$50,000
 \$50,000 to \$100,000 Above \$100,000

Family Size: 1 2 3 to 4 5 to 6 7+

Home: Own Home Rent

Geographic Location: Urban Suburban Rural

Education level: Did not graduate high school Graduated high school
 Some college Graduated college

5. Which category best describes the sales area for your product/service?

- Sold locally
- Sold statewide
- Sold regionally
- Sold in two or more states
- Sold nationally (all or nearly all 50 states)
- Sold nationally and internationally.

6. How do you plan to promote your business to potential customers?

7. How many competitors do you have? _____ ("None" is an unacceptable answer.)

8. Who are your five primary competitors?

Name and Location	Number of Employees	Years in Business	Why Do Customers Buy From Them?

9. What would you expect your annual salary to be from your business? \$_____

(Hourly wage \$_____ x 2080 hours = Annual Salary)

10. Estimate your start-up costs using Worksheet 1 below:

Worksheet 1: Start-up Costs			
	One Time Requirements Before Start-Up	Items Already Purchased:	Items Still Needed Before Start-Up:
	Legal, Accounting & Professional Services	\$	\$
	Advertising & Promotions	\$	\$
	Deposits for Utilities	\$	\$
	Licenses & Permits	\$	\$
	Prepaid Insurance	\$	\$
	Salary & Wages	\$	\$
	Payroll Taxes	\$	\$
	Truck & Vehicle	\$	\$
	Travel	\$	\$
	Tools & Supplies	\$	\$
	Furniture & Fixtures	\$	\$
	Machines & Equipment	\$	\$
	Building Improvements	\$	\$
	Land & Buildings	\$	\$
	Starting Inventory	\$	\$
	Cash (Working Capital)	\$	\$
	Other (specify)	\$	\$
	TOTAL:	\$	\$

Before your business can earn money, you will need to invest money in start-up costs. These costs are paid just one time and do not include your normal monthly business expenses.

This worksheet will help you estimate your start-up costs. List the costs of items you have already purchased in the "purchased" column and those you still need in the "needed" column.

TOTAL ESTIMATED START-UP COSTS (add both columns together) \$ _____

11. What do you expect your annual revenue (sales) to be in the first year? \$ _____

To help determine this estimate, please answer the questions below:

- a. How many different customers do you anticipate serving in a 12-month period? _____
- b. How many times in a 12-month period will the average customer return to purchase something? _____
- c. How much will the average customer spend on each visit to your business? \$ _____
- d. Multiply (a) x (b) x (c) = Estimated annual Revenue (Sales) \$ _____

12. Estimate your annual sales and earnings using Worksheet 2 below:

Forecasting "Sales and Revenues" is important for your financial success. It may take several years before your business begins to generate "satisfactory" profits but your sales goal should be to breakeven (match sales with expenses) by the end of the first year and show modest profits for Years 2 and 3. Do not include start-up costs on this worksheet.

Worksheet 2: Sales and Earnings

	1st Year	2nd Year	3rd Year
Total Revenue (Sales):	\$	\$	\$
Less: Cost of Goods Sold	\$	\$	\$
Gross Profit:	\$	\$	\$
Less Expenses:			
Salaries & Wages	\$	\$	\$
Outside Services	\$	\$	\$
Office Supplies & Postage	\$	\$	\$
Dues & Subscriptions	\$	\$	\$
Donations	\$	\$	\$
Rent	\$	\$	\$
Telephone	\$	\$	\$
Utilities	\$	\$	\$
Loan Payments	\$	\$	\$
Interest	\$	\$	\$
Depreciation	\$	\$	\$
Advertising & Promotions	\$	\$	\$
Truck & Vehicle	\$	\$	\$
Travel	\$	\$	\$
Payroll Taxes	\$	\$	\$
Taxes, Licenses & Permits	\$	\$	\$
Legal & Accounting Services	\$	\$	\$
Insurance	\$	\$	\$
Repairs & Maintenance	\$	\$	\$
Bad Debts	\$	\$	\$
Miscellaneous (unspecified)	\$	\$	\$
Other Expenses (specify each)	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
Total Expenses:	\$	\$	\$
NET PROFIT	\$	\$	\$

13. Calculate your sales breakeven point: \$ _____

Sales Breakeven Point = Total Expenses* / Gross Profit Percentage**

*Total Expenses: found at the bottom of "Worksheet 2: Sales and Earnings," on Question 12.

** Gross Profit Percentage: percentage difference between the selling price of a product or service and its cost.
(Note: It is recommended that your gross profit percentage be at least 15% or higher.)

Example: Total expenses of \$35,000 divided by gross profit percentage of .15 = sales breakeven point of \$233,333.

14. a. How much money is needed to start your business? \$ _____

Use "Total Estimated Start-Up Costs" from Question 10 to answer Question 14a.

b. Where will you find money to start your business?

Personal Savings	\$ _____	Family and Friends	\$ _____
Bank Loan	\$ _____	Retirement Account	\$ _____
Investor(s)	\$ _____	Partners	\$ _____
Credit Cards	\$ _____		
Other	\$ _____		

15. How would you rate your personal credit? _____ Excellent _____ Good _____ Average _____ Poor
Your business credit? _____ Excellent _____ Good _____ Average _____ Poor

Do you know your credit score? _____ Yes _____ No

16. Most financial institutions will require that you inject a minimum of 20% - 30% (sometimes more if the business is considered as risky) of the total estimated cash needed for start-up costs. This is referred to as your owner equity/investment in the business or your down payment.

- _____ I have this money or access to it.
- _____ I have some but not all of the money required.
- _____ I have no money to invest in this business.

The first two tools focused primarily on markets, products, customers and financials. However before making any decision on starting a business there are many other factors that must be considered to make a truly informed decision. The questions in the following checklist address those other factors and are adapted from U.S. Small Business Administration Business Development Publication MP 12, *Checklist for Going into Business*.

CRITICAL FACTORS TO CONSIDER WHEN STARTING A BUSINESS

IDENTIFY YOUR REASONS

As a first, and often overlooked step, ask yourself why you want to own your own business. Check each of the reasons that apply to you.

- Freedom from the 9-5 daily work routine.
- Being your own boss.
- Doing what you want when you want to do it.
- Improving your standard of living.
- You are bored with your present job.
- You have a product or service for which you feel there is a demand.
- Other reasons that are important to you.

Some reasons are better than others, none are wrong; however, be aware that there are tradeoffs. For example, you can escape the 9-5 routine, but you may replace it with a 6 AM to 10 PM routine.

A SELF ANALYSIS

Going into business requires certain personal characteristics. This portion of the checklist deals with you – the individual. These questions require serious thought. Try to be objective. Remember, it is your future that is at stake!

PERSONAL CHARACTERISTICS

- Yes No Are you a leader?
- Yes No Do you like to make your own decisions?
- Yes No Do others turn to you for help in making decisions?
- Yes No Do you enjoy competition?
- Yes No Do you have will power and self discipline?
- Yes No Do you plan ahead?
- Yes No Do you like people?
- Yes No Do you get along well with others?

PERSONAL CONDITIONS

This next group of questions, though brief, is vitally important to the success of your plan. It covers the physical, emotional and financial strains you will encounter in starting a new business.

Yes ___ No ___ Are you aware that running your own business may require working 12-16 hours a day, six days a week, and maybe even Sundays and holidays?

Yes ___ No ___ Do you have the physical stamina to handle the work load and schedule?

Yes ___ No ___ Do you have the emotional strength to withstand the stress and strain?

Yes ___ No ___ Are you prepared, if needed, to temporarily lower your standard of living until your business is firmly established?

Yes ___ No ___ Is your family prepared to go along with the strains they, too, must bear?

Yes ___ No ___ Are you prepared to lose your savings?

PERSONAL SKILLS AND EXPERIENCE

Certain skills and experience are critical to the success of a business. Since it is unlikely that you possess all the skills and experience needed, you'll need to hire personnel to supply those you lack. There are some basic and special skills you will need for your particular business.

By answering the following questions, you can identify the skills you possess and those you lack (your strengths and weaknesses).

Yes ___ No ___ Do you know what basic skills you will need in order to have a successful business?

Yes ___ No ___ Do you possess those skills?

Yes ___ No ___ When hiring personnel, will you be able to determine if the applicant's skills meet the requirements for the positions you are filling?

Yes ___ No ___ Have you ever worked in a managerial or supervisory capacity?

Yes ___ No ___ Have you ever worked in a business similar to the one you want to start?

Yes ___ No ___ Have you had any business training in school?

Yes ___ No ___ If you discover you don't have the basic skills needed for your business, will you be willing to delay your plans until you've acquired the necessary skills?

FINDING A NICHE

Small businesses range in size from a manufacturer with many employees and millions of dollars in equipment to the lone window washer with a bucket and a sponge. Obviously, the knowledge and skills required for these two extremes are far apart, but, for success, they have one thing in common—each has found a business niche and is filling it.

The most crucial problems you will face in your early planning will be to find your niche and determine the feasibility of your idea. "Get into the right business at the right time" is very good advice but following that advice may be difficult.

Many entrepreneurs plunge into a business venture so blinded by the dreams that they fail to thoroughly evaluate its potential.

PLANNING YOUR START-UP

So far, has asked questions about you personally. Through self-analysis you have learned of your personal qualifications and deficiencies. The following questions are grouped according to functions that you must understand to and prepare for.

NAME AND LEGAL STRUCTURE

Yes ___ No ___ Have you chosen a name for your business?

Yes ___ No ___ Have you chosen the legal structure under which you will operate?

YOUR BUSINESS AND THE LAW

A person in business is not expected to be a lawyer, but each business owner should have a basic knowledge of laws affecting the business. Here are some of the legal matters you should be acquainted with:

Yes ___ No ___ Do you know which licenses and permits you may need to operate your business?

Yes ___ No ___ Do you know the business laws you will have to obey?

Yes ___ No ___ Do you have a lawyer who can advise you and help you with legal papers?

Are you aware of:

Yes ___ No ___ Occupational Safety and Health (OSHA) requirements?

Yes ___ No ___ Regulations covering hazardous material?

Yes ___ No ___ Local ordinances covering signs, snow removal, etc.?

Yes ___ No ___ Federal Tax Code provisions pertaining to small business?

Yes ___ No ___ State Workers' Compensation laws?

PROTECTING YOUR BUSINESS

It is becoming increasingly important that attention be given to security and insurance protection for your business. There are several areas that should be covered. Have you examined the following categories of risk protection?

Yes ___ No ___ Fire

Yes ___ No ___ Theft

Yes ___ No ___ Robbery

Yes ___ No ___ Vandalism

Yes ___ No ___ Cyber security

Yes ___ No ___ Liability of all kinds

Discuss the types of coverage you will need and make a careful comparison of the rates and coverage with several insurance agents before making a final decision.

BUSINESS PREMISES AND LOCATION

Yes ___ No ___ Have you found a suitable building in a location convenient for your customers?

Yes ___ No ___ Can the building be modified for your needs at a reasonable cost?

Yes ___ No ___ Have you considered renting or leasing with an option to buy?

Yes ___ No ___ Will you have a lawyer check the zoning regulations and lease?

SUPPLIERS, PARTNERS & OUTSOURCING

Yes ___ No ___ Have you found reliable suppliers or partners for the good and services you will need or will outsource?

Yes ___ No ___ Have you compared the prices, quality and credit terms with those suppliers or partners?

BUSINESS RECORDS

Yes ___ No ___ Are you prepared to maintain complete records of sales, income and expenses, accounts payable and receivables?

Yes ___ No ___ Have you determined how to handle payroll records, tax reports and payments?

Yes ___ No ___ Do you know what financial reports should be prepared and how to prepare them?

CONCLUSION

Owning and running a business is a continuous learning process. Research your idea and do as much as you can yourself, but don't hesitate to seek help from people who can tell you what you need to know.

Comparison of Legal Structures

	SOLE PROPRIETORSHIP	PARTNERSHIP / LIMITED PARTNERSHIP / LIMITED LIABILITY PARTNERSHIP (LLP)	LIMITED LIABILITY COMPANY (LLC)	S CORPORATION	C CORPORATION
Legal Liability	Unlimited	Unlimited for general partnership, limited for others	Limited	Limited	Limited
Continuity of the Entity	Limited to life of proprietor	Limited, unless provided for in partnership contract	Dissolve date or Perpetual Life	Perpetual Life	Perpetual Life
Acquisition of Capital	Limited to only what the proprietor can secure	Generally limited to what partners collectively can raise	Generally limited to what members collectively can raise	Maximum of 100 stockholders, but capital generally not raised by selling stock	Unlimited number of stockholders, but capital generally not raised by selling stock
Transfer of Interest	Easy because all assets owned by individual proprietor	Right to distributions easy to transfer; interest in assets and right to management cannot be transferred without consent of other partners	Economic rights are transferable, management rights transferable with consent of other members	Stock easy to transfer unless restricted by agreement, by articles of incorporation or by being statutory close corporation	Stock easy to transfer unless restricted by agreement, by articles of incorporation or by being statutory close corporation
Management	All management decisions by proprietor	Usually all general partners will be actively involved in management activities. LLP governed by partnership agreement.	Usually managed by members, but can have separate managers with duties as outlined by the operating agreement	Managed by directors, who are elected by shareholders unless statutory close corporation has chosen to eliminate directors	Managed by directors, who are elected by shareholders unless statutory close corporation has chosen to eliminate directors.
Taxation of Income and Expenses	All income and expenses reported on proprietor's individual tax return	Divided among partners in accordance with investment or partnership agreement and reported on partners' individual returns	Divided among members in accordance with investment or operating agreement and reported on members' individual returns	Passed directly through to the shareholders according to the amount of stock held. Generally no income tax paid by corporation	Taxed separately at the corporate level, again at the shareholder level if distributed as a dividend
Liquidation of Entity	At the discretion of the proprietor, treated as sale of individual assets	Required upon withdrawal of a partner unless partnership agreement permits business continuation	Same as partnership	Normally a two-thirds vote of shareholders is required	Normally a two-thirds vote of shareholders is required
Major Advantages	Independence, flexibility, minimum of legal requirements	Additional management input and operational responsibilities shared, additional capital and equity available, flexibility, shared overhead means increased profits. Limited liability with LLP	Same as partnership plus limited liability without having to file annual document, can be treated as any business form for income tax purposes	Limited liability, profits taxed once, direct pass through of income and expenses to shareholder	Limited liability, can offer fringe benefits to owners and deduct them for income tax purposes
Major Disadvantages	Unlimited liability, limited life, limited management ability, limited investment potential	Unlimited liability unless LLP, annual renewal filing to keep LLP, limited life, relations among partners can cause problems, changes of partners or partnership agreement may be difficult	Relations among members can cause problems, changes of members or operating agreement may be difficult	Not every corporation can qualify, cannot deduct fringe benefits for owners or their families, relations among shareholders or directors can cause problems	Difficult to get assets out or to sell business without double tax, relations among shareholders or directors can cause problems

Avoidable Legal Mistakes

The following listed was prepared by an attorney and presented at a local networking event. The attorney has given permission to use this material. Its inclusion should not be taken as a recommendation of or referral to this individual and firm. It is included as general information but also to demonstrate many of the things the typical business owner may not be aware and highlights the need for legal assistance. It is not inclusion is not to be considered as legal advice.

ESBA Presentation by John Landwehr – Cook Vetter Doerhoff & Landwehr P.C.

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“Sixteen Avoidable Business Mistakes”

- Not forming an LLC or corporation
 - Even in one-person companies?
 - Inherent dangers in partnerships
- Being in business with other people and not paying attention to critical details.
 - Buy-Sell Provisions in bylaws, separate agreement, or operating agreement
 - Being 50-50 partners (or LLC members) without a conflict resolution agreement.
 - Thinking 51% of corporate stock = control when there are only two directors
- Disregarding the formalities. Don't let claimants “Pierce the veil”.
- Piercing your own veil: filing a fictitious registration showing individual owners.
- Keeping valuable assets inside a company.
- Not having a sexual harassment policy or not following the one you have.
- Not having meaningful annual employee evaluations.
- Overreaching in non-compete agreements.
- Not getting guarantees on accounts; Giving guarantees accounts.
- Automatically renewing service contracts.
- Financing through leases held by third parties.
- Seller financing without a substantial down payment.
- Buying a business without sales tax and UCC checks.
- Not reading contracts and asking questions or getting a review.
- Being less than ten years away from retirement and not having a succession plan.
- Being over fifty years old and not having a General Durable Power of Attorney.

FEDERAL TAXES

FEDERAL EMPLOYER IDENTIFICATION NUMBER (EIN)

Every employer transacting any business in Missouri and making payment of wages to a resident or nonresident individual must obtain a Federal Employer Tax Identification Number, which can be referred to as FEIN, FIN, or EIN. Federal law requires this number if you are an employer, partnership or corporation. Some entities, such as financial institutions, may require a business to have this number. The application form (SS-4) is available from the Internal Revenue Service (IRS) at <https://www.irs.gov/pub/irs-pdf/fss4.pdf>

FICA

The Federal Insurance Contributions Act (FICA) is a federal payroll tax imposed on both employees and employers to fund Social Security and Medicare—federal programs that provide benefits for retirees, disabled people, and children of deceased workers. See a general explanation of FICA at <https://www.irs.gov/taxtopics/tc751>

SELF-EMPLOYMENT TAX

You must pay Self-Employment Tax if:

- You were self-employed and your net earnings from self-employment (excluding any church employee income) were \$400 or more; or
- You performed services for a church as an employee and received income of \$108.28 or more. However, if you are a member of the clergy or a religious worker, you may not have to pay Self-Employment Tax.
- You are self-employed if you carry on a trade or business as a sole proprietor, an independent contractor, a member of a partnership, LLC, or are otherwise in business for yourself.
- You do not have to carry on regular full-time business activities to be self-employed. Part-time work, including work you do on the side in addition to your regular job, may also be self-employment.

A trade or business is generally an activity carried on for a livelihood or in good faith to make a profit. The facts and circumstances of each case determine whether or not an activity is a trade or business. Regularity of activities and transactions and the production of income are important elements. You do not need to actually make a profit to be in a trade or business as long as you have a profit motive. You do need, however, to make ongoing efforts to further the interests of your business.

The Self-Employment Tax rules apply even if you are fully insured under Social Security or have started receiving benefits. For more information, contact the IRS by calling (800) 829-4933 or visit their web site at <https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center>

CORPORATE ESTIMATING TAX

A corporation must file with the state a Missouri Declaration of Estimated Tax form (dor.mo.gov/forms/index.php?formName=1120ES) and a Federal Estimated Tax (<https://www.irs.gov/pub/irs-pdf/j1120w.pdf>)

Missouri forms can be obtained from dor.mo.gov/forms/ and Federal forms from www.irs.gov/formspubs.

EXCISE TAX

The federal Government imposes excise taxes on various types of business activities. Some excise taxes are on the production or sale of certain goods, while others are on services or the use of certain products or facilities. Still others are imposed on specific types of businesses.

For further information on excise taxes and other federal taxes, refer to IRS [Publication 510, Excise Taxes](#). For more detailed information on other federal taxes, refer to IRS [Pub 334 Tax Guide For Small Businesses](#)

STATE TAXES

SALES TAX NUMBER

Any business making retail sales must obtain a Missouri Retail Sales License from the Missouri Department of Revenue. A bond, based on projected monthly gross sales, must be posted at the time of application. An application form ([Form 2643](#)) to register for sales tax can be obtained from the Missouri Department of Revenue. Generally, a wholesaler or manufacturer will present a Sales/Use Tax Exemption Certificate ([Form 149](#)) to their suppliers showing the sale is exempt from sales tax.

CORPORATE INCOME TAX

State law sets the corporate income tax rate at 6.25 percent of Missouri taxable income. In addition, Missouri allows 50 percent of federal income tax liability to be deducted before computing taxable income.

SOLE PROPRIETORSHIP/PARTNERSHIP/LLC/S-CORPORATION

All net business income is taxable to the sole proprietorship. For partnerships, LLCs electing not to be taxed as a corporation and S-Corporation income is taxable according to each partner, member or shareholder's share or interest of ownership. Your personal income tax rate depends on your level of total personal income. On your federal return you may be able to deduct from your gross income some personal expenses that are directly related to your business.

WITHHOLDING TAX

Every employer maintaining an office or transacting any business in Missouri and making payment of wages to a resident or nonresident individual must obtain a Missouri Employer Tax Identification Number. State tax is then withheld from the employee's payroll and remitted to the Missouri Department of Revenue. For more information see <http://dor.mo.gov/business/withhold/> or call (573) 751-8750. The tax assistance office website is at http://dor.mo.gov/tax_assistance_office.php.

RETAIL SALES TAX

Any person or company that has a business location in Missouri from which they sell or lease goods to a final consumer is required to collect and remit Missouri sales tax. Also, any company that leases motor vehicles (including boats, trailers, and outboard motors) is required to collect and remit Missouri sales tax. If the lease period is 60 days or less, the sales tax is based on the address of the lessor. If the lease period is more than 60 days, the sales tax is based on the address of the lessee. It is the business' responsibility to ensure that sales tax is collected at the correct tax rate. You must have a Missouri Retail Sales License prior to making sales. Conducting retail sales without a valid Missouri Retail Sales License may result in a penalty of up to \$500 for the first day and \$100 for each subsequent day, not to exceed \$10,000, in addition to any other penalties or interest that may be imposed. For the first twenty days this penalty does not apply to persons opening a business in the state of Missouri for the first time.

A bond must accompany the application for the license. The amount of the bond is based on your estimated monthly gross sales. Complete information on the various types of bonds is included in the Missouri Tax Registration Application (Department of Revenue form 2643), which can be found at dor.mo.gov/forms/

A table of sales tax rates for Missouri counties and cities can be found at dor.mo.gov/business/sales/rates/.

VENDOR'S USE TAX

Out-of-state businesses making sales of goods to the final consumer located in Missouri may be required to collect and remit Missouri vendor's use tax. They must obtain a Missouri Use Tax License and post a bond.

Out-of-state businesses that lease goods to Missouri customers from an out-of-state business location are required to collect and remit Missouri vendor's use tax. They also must obtain a Missouri Use Tax License and post a bond.

CONSUMER'S USE TAX

If your business is located in Missouri and is purchasing goods from an out-of-state vendor for consumption, when Missouri tax was not collected at the time of purchase, you are required to remit Missouri Consumers [Use Tax](#). You must register for the payment of Use Tax; however, no bond is required. For more information, call (573) 751-2836.

UNEMPLOYMENT INSURANCE

Most companies doing business in Missouri are required to pay unemployment insurance, sometimes referred to as unemployment tax, to protect their workers during unemployment. This applies to most businesses having one or more workers on the payroll for 20 weeks during the calendar year, and to businesses paying an individual employee \$1,500 in a given quarter. File form 2699 to determine liability status for [Unemployment Insurance](#), or for more information call (573) 751-1995.

WORKERS' COMPENSATION

Workers' compensation is a state-mandated, "no-fault" insurance system that pays benefits to workers injured on the job to cover medical care, part of lost wages and permanent disability. In return, employers receive immunity from civil lawsuits by employees over such workplace injuries.

All businesses with five or more employees (except agricultural or domestic labor) must provide workers' compensation insurance to protect their workers in case of job-related injury, illness or death. Companies with less than five employees may elect to provide workers compensation insurance.

Construction companies, regardless of the number of employees, must provide workers' compensation insurance. Companies can offer this protection through a private insurance carrier or they can become self-insurers. Premium rates vary, depending on the risks associated with the occupation. As in most states, the premium rates apply to an employee's total annual salary. The maximum weekly benefit for temporary total disability, temporary partial disability, permanent total disability and death is currently computed as 105 percent of the average weekly wage, determined annually on July 1st. For more information, contact the Division of Workers' Compensation (800) 775-2667 or (573) 751-4231 or go to [workers compensation insurance info](#).

TAX CONSIDERATIONS OF BUSINESS STRUCTURE

Tax considerations are essential during the formation of a new business and during its entire life. When a business is just starting out, it may have little or no income or assets, and the choice of structure may not seriously affect its tax liability. However, as the business grows, the tax implications become more significant.

Choosing a particular structure does not necessarily determine how the business will be taxed. While a corporation can elect to be taxed as an individual, there are strict limitations placed upon such an election. Since the income of a sole proprietorship is taxed directly to the individual proprietor, sole proprietors should keep open the option of incorporation, which would change the tax impact on the business. The following table indicates the state and federal forms that must be filed for different business structures and compares the tax liabilities for the most common business structures.

Sole Proprietor	Partnership	LLC	C-Corp	S-Corp
File Schedule C on your 1040 (State and Federal)	File 1065 (State and Federal); tax based on percentage of ownership; LLC must issue each partner a K-1 for their personal income taxes	File 1120S (State and Federal) AND Federal 2553 “Flow Through Tax” (this differentiates the LLC from a corporation). Tax is based on percentage of ownership. LLC must annually provide each investor with a K-1 form to file with their personal taxes.	No flow through tax (e.g., the corporation pays income tax on its earnings). If shareholder draws from corporate earnings, the shareholder pays income tax on the amount through their personal income tax. File “Closed Corporation” form for taxes. Owner can be an employee of the corporation and paid a salary and benefits.	File as a general corporation to become a Subchapter S Corporation, which is a federal designation for flow through tax (form 1120S), must file 2553 form with US Internal Revenue Service. If form is not filed, the corporation is considered a general corporation.
No annual meeting, no by-laws, no annual reporting, no annual renewal fee, no stockholders. Must have operating agreement, but does not need to be in writing.	Same as sole proprietor	Same as sole proprietor	Can, through by-laws, exempt the organization from having a board. Can elect to not have by-laws. Must hold annual meeting. Annual renewal fee of \$45 and annual reporting to Secretary Of State. If these are not done, the corporation ceases to exist.	Must have annual meetings; annual report; board of directors; and stockholders meeting. Annual renewal fee of \$45 and annual reporting to Secretary of State. If these are not done, the corporation ceases to exist.

INSURANCE

Insurance coverage is available for every conceivable risk your business might face. Several types of insurance to consider are briefly described below. Some companies offer a Business Owner's Policy (BOP) where several policies are bundled together. Cost and amount of coverage of policies vary among insurers. You should discuss your specific business risks and the types of insurance available with your insurance agent or broker. Your agency can advise you on the exact types of insurance you should consider purchasing. Not included below are worker's compensation and unemployment, which are required but have been discussed elsewhere.

GENERAL LIABILITY INSURANCE

Business owners purchase general liability insurance to cover legal hassles due to accident, injuries and claims of negligence. These policies protect against payments as the result of bodily injury, property damage, medical expenses, libel, slander, the cost of defending lawsuits, and settlement bonds or judgments required during an appeal procedure.

PRODUCT LIABILITY INSURANCE

Companies that manufacture, wholesale, distribute, and retail a product may be liable for its safety. Product liability insurance protects against financial loss as a result of a defect product that causes injury or bodily harm. The amount of insurance you should purchase depends on the products you sell or manufacture. A clothing store would have far less risk than a small appliance store, for example.

PROFESSIONAL LIABILITY INSURANCE

Business owners providing services should consider having professional liability insurance (also known as errors and omissions insurance). This type of liability coverage protects your business against malpractice, errors, and negligence in provision of services to your customers. Depending on your profession, you may be required by your state government to carry such a policy. For example, physicians are required to purchase malpractice insurance as a condition of practicing in certain states.

COMMERCIAL PROPERTY INSURANCE

Property insurance covers everything related to the loss and damage of company property due to a wide-variety of events such as fire, smoke, wind and hail storms, civil disobedience and vandalism. The definition of "property" is broad, and includes lost income, business interruption, buildings, computers, company papers and money.

Property insurance policies come in two basic forms: (1) all-risk policies covering a wide-range of incidents and perils except those noted in the policy; (2) peril-specific policies that cover losses from only those perils listed in the policy. Examples of peril-specific policies include fire, flood, crime and business interruption insurance. All-risk policies generally cover risks faced by the average small business, while peril-specific policies are usually purchased when there is high risk of peril in a

certain area. Consult your insurance agent or broker about the type of business property insurance best suited for your small business.

HOME-BASED BUSINESS INSURANCE

Contrary to popular belief, homeowners' insurance policies do not generally cover home-based business losses. Depending on risks to your business, you may add riders to your homeowners' policy to cover normal business risks such as property damage. However, homeowners' policies only go so far in covering home-based businesses and you may need to purchase additional policies to cover other risks, such as general and professional liability.

COMMERCIAL AUTO INSURANCE

Commercial auto insurance protects a company's vehicles. You can protect vehicles that carry employees, products or equipment. With commercial auto insurance you can insure your work cars, SUVs, vans and trucks from damage and collisions. If you do not have company vehicles, but employees drive their own cars on company business you should have non-owned auto liability to protect the company in case the employee does not have insurance or has inadequate coverage. Many times the non-owned can be added to the BOP policy.

BUSINESS INTERRUPTION INSURANCE

If a disaster or catastrophic event does occur, a business's operations will likely be interrupted. During this time, your business will suffer from lost income due to your staff's inability to work in the office, manufacture products or make sales calls. This type of insurance is especially applicable to companies that require a physical location to do business, such as retail stores. Business interruption insurance compensates a business for its lost income during these events.

DATA BREACH

If the business stores sensitive or non-public information about employees or clients on their computers, servers or in paper files they are responsible for protecting that information. If a breach occurs either electronically or from a paper file a Data Breach policy will provide protection against the loss.

LIFE INSURANCE

If you have a sizeable loan consider purchasing more life insurance to the amount to intended to leave to your family is not consumed by the repayment of a loan liability.

HIRING EMPLOYEES

Before you actually hire, we recommended that you consult with your accountant or with an employer service representative at your local Division of Workforce Development Office. The local Division Office can assist you with locating employees. Helpful information can also be found on the jobs.mo.gov (formerly Missouri Career Source and Great Hires!) and at labor.mo.gov/unemployed-workers

You can obtain a copy of publication 15, Circular E, Employer's Tax Guide from your local IRS office or call (800) 829-4933 or download it at www.irs.gov/pub/irs-pdf/p15.pdf. Circular E explains federal tax withholding and Social Security tax requirements for employers as well as containing up-to-date withholding tables for you to use to determine how much federal income tax and Social Security tax is to be withheld from each employee's paycheck.

TIPS ON HIRING

Before you hire that employee:

- ❑ Obtain a Federal Employer Identification number (IRS form SS4) www.irs.gov/pub/irs-pdf/fss4.pdf
- ❑ Obtain a Missouri Employer withholding number by filing Missouri Department of Revenue form 2643 dor.mo.gov/forms/2643.pdf. For additional information call the Missouri Department of Revenue at (573) 751-5860.
- ❑ File form 2699 to determine liability status for Unemployment Insurance https://labor.mo.gov/sites/labor/files/pubs_forms/2699-5-AI.pdf to determine contributions to the Missouri unemployment compensation fund. For more information, contact the Missouri Division of Employment Security (573) 751-1995; or go to <https://labor.mo.gov/des>
- ❑ Make appropriate arrangements to pay Workers Compensation Insurance. For more information call Missouri Division of Worker's Compensation (800) 775-2667 or (573) 751-4231 or go to <https://labor.mo.gov/dwc>

Once you have hired the employee:

- ❑ Each employee must complete the IRS form W-4 and a Missouri form W-4. A copy of the federal W-4 or the Missouri form must be forwarded to the Missouri Department of Revenue within 20 days of the new hire. For more information, visit the IRS website at www.irs.gov/forms-pubs/about-form-w4. For the Missouri Employer's Tax Guide which has W-4 information, go to http://dor.mo.gov/forms/4282_2017.pdf
- ❑ The employee must complete an I-9 and the employer keeps this form on hand in a separate file. Download the form at <https://www.uscis.gov/i-9>
- ❑ With the first payroll you will:
 - Withhold state income tax and federal income tax at a percentage determined by salary and exemption information stated on the form W-4. An IRS Withholding Calculator can be found at <https://www.irs.gov/individuals/irs-withholding-calculator>. A Missouri Withholding Calculator can be found at <https://mytax.mo.gov/rptp/portal/home/withholding-calculator>
 - Withhold 6.2 percent of the employee's salary for Social Security taxes.
 - Pay 6.2 percent of the amount of the employee's salary for Social Security taxes.

- Withhold 1.45 percent of the employee’s salary for Medicare taxes.
- Pay 1.45 percent of the employee’s salary for Medicare taxes.
- Make monthly payment of these taxes to an approved banking institution on the 15th of the month.
- File reports with the government on a quarterly and annual basis; and, issue W-2 reports to employees at the end of the year.
- For more information, visit the IRS website at: www.irs.gov. IRS [Publication #15](#) is a good resource.

The employer is required to display appropriate work posters informing employees of their rights regarding discrimination, unemployment benefits, worker compensation, Equal Employment, Federal Minimum Wage, Family Medical Leave Act (FMLA), Occupational Safety and Health Administration (OSHA), Polygraph Protection Act and others. Here is a link to the Department of Labor that has both Missouri and Federal posters labor.mo.gov/posters

Review OSHA guidelines and check workplace safety procedures with all employees. OSHA Region VII (816) 283-8745 or www.osha.gov

Additional resources related to hiring employees can be found at www.dol.gov/.

EMPLOYEES VS INDEPENDENT CONTRACTORS

Missouri uses the IRS 20 Factor test as a guide to determine the proper classification of a worker. If an employer has individual(s) performing services in connection with its business operations who are not considered employees, the employer has the responsibility to contact the DES for a ruling on the workers' employment status. Any agreement by an individual to waive rights to unemployment insurance coverage is void under the Missouri Employment Security Law. If you are found to have misclassified employees as independent contractors, you could be facing substantial fines.

The list that follows gives 20 factors or "tests" formally used by the IRS when determining whether a person is an employee or an independent contractor. The focus is the degree to which the employer has the right to control the manner and means of a worker’s performance. No single factor or small group of factors can be taken as conclusive evidence of the presence or absence of control. To determine a worker’s status, all the factors must be evaluated. The weight given to the individual factors is not equal, and some factors may not apply to certain occupations. Obtaining classification as an independent contractor can be very difficult.

A Missouri court, in *National Heritage Enterprises, Inc. v. Division of Employment Sec.*, 164 S.W.3d 160, 167-74 (Mo. App. W.D. 2005), has identified and described the twenty factors as follows:

1. **Instructions.** A worker who is required to comply with other persons’ instructions about when, where, and how he or she is to work is ordinarily an employee. This control factor is present if the person or persons for whom the services are performed has the right to require compliance with the instructions. With respect to the “instructions” factor, the right to control is manifested in control over the “when, where, and how” work is completed.
2. **Training.** Training a worker by requiring an experienced employee to work with the worker, by corresponding with the worker, by requiring the worker to attend meetings, or by using other methods, indicates that the person or persons for whom the services are performed want the services performed in a particular method or manner.

3. **Integration.** Integration of the worker's services into the business operations generally shows that the worker is subject to direction and control. When the success or continuation of a business depends to an appreciable degree upon the performance of certain services, the workers who perform those services must necessarily be subject to a certain amount of control by the owner of the business.
4. **Services Rendered Personally.** If the services must be rendered personally, presumably the person or persons for whom the services are performed are interested in the methods used to accomplish the work as well as the results.
5. **Hiring, Supervising, and Paying Assistants.** If the person or persons for whom the services are performed hire, supervise, and pay assistants, that factor generally shows control over the workers on the job. However, if one worker hires, supervises, and pays the other assistants pursuant to a contract under which the worker agrees to provide materials and labor under which the worker is responsible only for the attainment of a result, this factor indicates an independent contractor status.
6. **Continuing Relationship.** A continuing relationship between the worker and the person or persons for whom the services are performed indicates that an employer-employee relationship exists. A continuing relationship may exist where work is performed at frequently recurring although irregular intervals.
7. **Set Hours of Work.** The establishment of set hours of work by the person or persons for whom the services are performed is a factor indicating control.
8. **Full Time Required.** If the worker must devote substantially full time to the business of the person or persons for whom the services are performed, such person or persons have control over the amount of time the worker spends working and impliedly restrict the worker from doing other gainful work. An independent contractor on the other hand, is free to work when and for whom he or she chooses.
9. **Doing Work on Employer's Premises.** If the work is performed on the premises of the person or persons for whom the services are performed, that factor suggests control over the worker, especially if the work could be done elsewhere. Work done off the premises of the person or persons receiving the services, such as at the office of the worker, indicates some freedom from control. However, this fact by itself does not mean that the worker is not an employee. The importance of this factor depends on the nature of the service involved and the extent to which an employer generally would require that employees perform such services on the employer's premises. Control over the work is indicated when the person or persons for whom the services are performed have the right to compel the worker to travel a designated route, to canvass a territory within a certain time, or to work at specific places as required.
10. **Order or Sequence Set.** If a worker must perform services in the order or sequence set by the person or persons for whom the services are performed, that factor shows that the worker is not free to follow the worker's own pattern of work but must follow the established routines and schedules of the person for whom the services are performed.
11. **Oral or Written Reports.** A requirement that the worker submit regular or written reports to the person or persons for whom the services are performed indicates a degree of control.
12. **Payment by Hour, Week, Month.** Payment by the hour, week, or month generally points to an employer-employee relationship, provided that this method of payment is not just a convenient way of giving a lump sum agreed upon as the cost of the job. Payment made by the job or on a straight commission generally indicates that the worker is an independent contractor.

13. **Payment of Business and/or Traveling Expenses.** If the person or persons for whom the services are performed ordinarily pay the worker's business and/or traveling expenses, the worker is ordinarily an employee. An employer, to be able to control expenses, generally retains the right to regulate and direct the worker's business activities.
14. **Furnishing Tools and Materials.** The fact that the person or persons for whom the services are performed furnished significant tools, materials, and other equipment tends to show the existence of an employer-employee relationship.
15. **Significant Investment.** If the worker invests in facilities that are used by the worker in performing services and are not typically maintained by employees (such as maintenance of an office rented at fair market value from an unrelated party), that factor tends to indicate that the worker is an independent contractor. On the other hand, lack of investment in facilities indicates dependence on the person or persons for whom the services are performed for such facilities and, accordingly, the existence of an employer-employee relationship. Special scrutiny is required with respect to certain types of facilities, such as home offices.
16. **Realization of Profit or Loss.** A worker who can realize a profit or loss as a result of the worker's services (in addition to the profit or loss ordinarily realized by employees) is generally an independent contractor, but the worker who cannot is an employee. For example, if the worker is subject to a real risk of economic loss due to significant investments or a bona fide liability for expenses, such as salary payments to unrelated employees, that factor indicates that the worker is an independent contractor.
17. **Working for More Than One Firm at a Time.** If a worker performs more than de minimis services for a multiple of unrelated persons or firms at the same time, that factor generally indicates that the worker is an independent contractor. However, a worker who performs services for more than one person may be an employee of each of the persons, especially where such persons are part of the same service arrangement.
18. **Making Services Available to the General Public.** The fact that a worker makes his or her services available to the general public on a regular and consistent basis indicates an independent contractor relationship.
19. **Right to Discharge.** The right to discharge a worker is a factor indicating that the worker is an employee and the person possessing the right is an employer. An employer exercises control through the threat of dismissal, which causes the worker to obey the employer's instructions. An independent contractor, on the other hand, cannot be fired so long as the independent contractor produces a result that meets the contract specifications.
20. **Right to Terminate.** If the worker has the right to end his or her relationship with the person for whom the services are performed at any time he or she wishes without incurring liability, that factor indicates an employer-employee relationship.

A Missouri worker relationship questionnaire is available at https://labor.mo.gov/sites/labor/files/pubs_forms/4389-LF-AI.pdf

The IRS at the federal level has changed the factors used to determine employment status. The basis is still the amount of control exercised over a worker. The factors are grouped into three categories

1. Behavioral
2. Financial
3. Type of Relationship

Businesses must weigh all these factors when determining whether a worker is an employee or independent contractor. Some factors may indicate that the worker is an employee, while other factors indicate that the worker is an independent

contractor. There is no “magic” or set number of factors that “makes” the worker an employee or an independent contractor, and no one factor stands alone in making this determination. Also, factors which are relevant in one situation may not be relevant in another.

The keys are to look at the entire relationship, consider the degree or extent of the right to direct and control, and finally, to document each of the factors used in coming up with the determination.

Behavioral questions include:

Types of Instructions Given

An employee is generally subject to the business’s instructions about when, where, and how to work. All of the following are examples of types of instructions about how to do work.

- When and where to do the work.
- What tools or equipment to use.
- What workers to hire or to assist with the work.
- Where to purchase supplies and services.
- What work must be performed by a specified individual.
- What order or sequence to follow when performing the work.

Degree of Instruction

Degree of Instruction means that the more detailed the instructions, the more control the business exercises over the worker. More detailed instructions indicate that the worker is an employee. Less detailed instructions reflects less control, indicating that the worker is more likely an independent contractor.

Note: The amount of instruction needed varies among different jobs. Even if no instructions are given, sufficient behavioral control may exist if the employer has the right to control how the work results are achieved. A business may lack the knowledge to instruct some highly specialized professionals; in other cases, the task may require little or no instruction. The key consideration is whether the business has retained the right to control the details of a worker's performance or instead has given up that right.

Evaluation System

If an evaluation system measures the details of how the work is performed, then these factors would point to an employee.

If the evaluation system measures just the end result, then this can point to either an independent contractor or an employee.

Training

If the business provides the worker with training on how to do the job, this indicates that the business wants the job done in a particular way. This is strong evidence that the worker is an employee. Periodic or on-going training about procedures and methods is even stronger evidence of an employer-employee relationship. However, independent contractors ordinarily use their own methods.

Financial questions include:

Significant investment

An independent contractor often has a significant investment in the equipment he or she uses in working for someone else. However, in many occupations, such as construction, workers spend thousands of dollars on the

tools and equipment they use and are still considered to be employees. There are no precise dollar limits that must be met in order to have a significant investment. Furthermore, a significant investment is not necessary for independent contractor status as some types of work simply do not require large expenditures.

Unreimbursed expenses

Independent contractors are more likely to have unreimbursed expenses than are employees. Fixed ongoing costs that are incurred regardless of whether work is currently being performed are especially important. However, employees may also incur unreimbursed expenses in connection with the services that they perform for their business.

Opportunity for profit or loss

The opportunity to make a profit or loss is another important factor. If a worker has a significant investment in the tools and equipment used and if the worker has unreimbursed expenses, the worker has a greater opportunity to lose money (i.e., their expenses will exceed their income from the work). Having the possibility of incurring a loss indicates that the worker is an independent contractor.

Services available to the market

An independent contractor is generally free to seek out business opportunities. Independent contractors often advertise, maintain a visible business location, and are available to work in the relevant market.

Method of payment

An employee is generally guaranteed a regular wage amount for an hourly, weekly, or other period of time. This usually indicates that a worker is an employee, even when the wage or salary is supplemented by a commission. An independent contractor is usually paid by a flat fee for the job. However, it is common in some professions, such as law, to pay independent contractors hourly.

Type of Relationship include:

Written Contracts

Although a contract may state that the worker is an employee or an independent contractor, this is not sufficient to determine the worker's status. The IRS is not required to follow a contract stating that the worker is an independent contractor, responsible for paying his or her own self-employment tax. How the parties work together determines whether the worker is an employee or an independent contractor.

Employee Benefits

Employee benefits include things like insurance, pension plans, paid vacation, sick days, and disability insurance. Businesses generally do not grant these benefits to independent contractors. However, the lack of these types of benefits does not necessarily mean the worker is an independent contractor.

Permanency of the Relationship

If you hire a worker with the expectation that the relationship will continue indefinitely, rather than for a specific project or period, this is generally considered evidence that the intent was to create an employer-employee relationship.

Services Provided as Key Activity of the Business

If a worker provides services that are a key aspect of the business, it is more likely that the business will have the right to direct and control his or her activities. For example, if a law firm hires an attorney, it is likely that it will present the attorney's work as its own and would have the right to control or direct that work. This would indicate an employer-employee relationship.

[Form SS-8](#) is available to obtain an IRS ruling worker status for tax purposes.

SMALL DISADVANTAGED BUSINESS PURCHASING PROGRAM

There are different certifying requirements for agencies that have programs for small disadvantaged businesses (SDB) or minority/women business enterprises (MBE/WBE). The two commonly used in Missouri are the SBA programs and the Missouri MBE/WBE certification program. Other agencies may have additional certification requirements.

SBA CERTIFICATIONS

The SBA administers the 8(a) Business Development Program (www.sba.gov/8abd/). Under the government's reformed affirmative action rules, small disadvantaged business are eligible for price evaluation adjustments of up to 10 percent when bidding on federal contracts in certain industries. The program also provides evaluation credits for prime contractors who achieve SDB subcontracting targets. The program is intended to help federal agencies achieve the government-wide goal of 5 percent SDB participation in prime contracting. Contact a Business Opportunity Specialist at your [SBA district office](#) for more information on becoming certified.

MISSOURI MBE/WBE CERTIFICATION

In order for a business to be recognized as an MBE/WBE with the State of Missouri and for the expenditures with that business to be included in the State's participation goals, the firm must be certified as an MBE/WBE. The basic requirements for certification are that the business is at least fifty-one percent (51%) owned and controlled by minorities or women.

It takes 60 to 90 days to become certified, however the process can be done more quickly if the business is SBA 8(a) certified. An 8(a) certification does not qualify the company as an MBE/WBE for Missouri State participation goals. Contact the Missouri Office of Equal Opportunity, Office of Administration at (877) 259-2963 or (573) 751-8130 or visit <https://oeo.mo.gov/eligibilityapplication/> to become certified.

FREQUENTLY ASKED QUESTIONS

The following list of question and answers may provide you with the information you are seeking. However, if you find that you need further assistance, the best source is the Missouri Small Business & Technology Development Centers' business counselors which include the Missouri Extension business specialists who are combined as one system to assist businesses throughout the state with business planning, loan preparation, financial projections, market research, marketing, training and much more. This link, <https://missouribusiness.net/centers/>, can provide the center located nearest to you. Additional sources of assistance are included with answers to some questions.

1. WHAT IS A BUSINESS PLAN?

Answer: A business plan is a formal, written document that provides information about your company and its industry, describes a marketing plan, details an operations plan, and projects the financial needs and performance of the business. It details where the company is going and what the company intends to do. It provides direction for you and communicates to others your business opportunity. Your banker will use the business plan to learn more about your business and to determine if your business qualifies for a loan.

A typical business plan is a typed document that contains a cover page, table of contents, a narrative that describes the business, identifies the market and customers, explains the organization, management and operations of the business, and the presents the financial assumptions and projections. The projections must include the balance sheet, cash flow and income (profit and loss) statement projections for three (3) years each. Exhibits that are encouraged include pictures, contracts, supplier estimates, equipment needs, inventory requirements, resumes, and whatever else is important to tell your story.

2. I RECENTLY FILED A FICTITIOUS NAME STATEMENT WITH THE STATE OF MISSOURI. WILL I BE NOTIFIED IF THIS NAME IS ALREADY BEING USED?

Answer: Sole proprietorships and partnerships are required to file a "fictitious name registration" with the Secretary of State's Office; however, this registration does not afford the business legal protection of their business name- e.g., there can be multiple sole proprietorships/partnerships with the same business name. Since there is no name protection, name availability checks will not be done. To protect your business or product name, see question 21.

Limited Partnerships, Limited Liability Partnerships, Limited Liability Companies and Corporations have legal protection of their business name in Missouri when they file their registration with the Missouri Secretary of State. Since there can be no duplication of names for these types of entities, you may want to check on the availability of your selected name through the Secretary of State's office by calling (573) 751-4135 or (866) 223-6535 or going to <http://www.sos.mo.gov/businessentity/soskb/csearch.asp>.

3. I CURRENTLY OWN A BUSINESS REGISTERED WITH THE STATE AS QRS ENTERPRISES, INC. I PLAN TO OPERATE ANOTHER BUSINESS IN THE NEXT FEW MONTHS. DO I NEED TO REGISTER THE NEW BUSINESS SEPARATELY OR CAN IT OPERATE UNDER THE UMBRELLA OF QRS ENTERPRISES, INC?

Answer: It depends on how you advertise and market the businesses. If you market a variety of services promoted as being available from QRS Enterprises, Inc., then you can operate under the umbrella of QRS Enterprises, Inc. However, if you want to promote the businesses under different names; each must be registered under a different name. In the case of a corporation, for example, QRS Enterprises, Inc., each subsidiary business would register a Fictitious Name which would be

QRS Enterprises, Inc., DBA Bob's Janitorial Supplies; QRS Enterprises, Inc., DBA Janitor on the Run; etc. (DBA - means "doing business as"). A sole proprietor who registers more than one business must get a separate sales tax identification number for each business. A Corporation needs separate sales tax identification numbers for each DBA unless they are being operated from the same location.

Of course, some of this depends on whether the products/services offered by the business are subject to sales tax. In the example cited above, Bob's Janitorial Supplies would need a sales tax id number since they make retail sales of products. Janitor on the run, however, offers a Janitorial Service and would not collect sales tax from their customers.

4. WHAT FORM OF ORGANIZATION SHOULD I CHOOSE FOR MY BUSINESS?

Answer: Missouri law allows you to select one of the following: sole proprietorship, partnership, limited partnership, limited liability partnership, limited liability company, S-corporation, and C-corporation. Each of these organizations has its own advantages and disadvantages. The key to selection revolves around liability and taxation. Consult with a business attorney and certified public accountant for advice. Here are some questions you need to ask your attorney or accountant:

- How easy is it to set up and operate? Some forms of organization are easier to set up and operate than others. This may be an important factor if start-up funds are limited.
- What are the tax advantages and disadvantages? Different forms of organization are taxed differently and it is important for you to understand how the business will be taxed.
- What is my personal responsibility for business liabilities, debts and losses? If your business poses a risk of personal injury or property damage, this is an important consideration. Protecting your personal assets from claims against your business may be an overriding factor in the selection of a business form of organization. It won't eliminate all your risk, so good insurance planning is critical.

5. WHAT STEPS SHOULD I TAKE TO BECOME LEGALLY REGISTERED IN THE STATE OF MISSOURI?

Answer: All businesses are subject to a number of tax obligations, permit and license requirements, zoning restrictions, and other laws at the city, county, state and federal levels. While every business may not be subject to every requirement, it is important to ask questions and carefully study the information provided. Many requirements stem from the legal structure you choose, the type of business you are starting, the estimated revenues of your business, and the number of employees you will employ.

The City Clerk's office in City Hall is the first place to call to learn the requirements of the city where you plan to operate. Ask the City Clerk about obtaining a business license and the Zoning Commissioner/office about zoning requirements for signs and the business itself.

At the county level, registration is usually required for business property tax purposes. You may also be required to obtain a merchants/manufacturers license if you deal with tangible items. The county courthouse – usually the County Clerk or Collector's Office – is where you seek information on registering your business.

On the state level, [Missouri Sourcelink](#), at (866) 870-6500, will answer questions concerning Missouri's registration and tax requirements. You can also visit <https://openforbiz.mo.gov> to access state requirements and information.

On the federal level, IRS, has online information for starting a business at <https://www.irs.gov/businesses/small-businesses-self-employed/starting-a-business> or call (800) 829-4933. Business owners have numerous federal tax obligations. The

three main ones are income tax, self-employment taxes and employment taxes. If you have employees, you are required to obtain a Federal Employer Identification Number (EIN).

If you live in an area governed by a home association, be sure to check their guidelines. Often, they are more restrictive than those found in the city.

Take note that the above requirements also apply to representatives of multi-level marketing companies. Each city or town may treat this type of business differently. Be sure to inquire. Do not rely on information from someone living in a different city or another state. Rules and regulations vary.

6. HOW DO I OBTAIN A COPYRIGHT?

Answer: To get assistance with copyright information, please contact:

Library of Congress
U.S. Copyright Office
101 Independence Avenue, S.E.
Washington, D.C. 20559-6000
Ph. (202) 707-3000 or (877) 476-0778;
Or visit <http://www.copyright.gov>

7. WHAT DO MO-SBTDC SERVICES COST?

Answer: Counseling services are provided at no charge to the client. There may be a fees for other services such as management and financial assessments, training seminars and courses, or other SBTDC products developed for the small business owner.

8. I AM A SMALL BUSINESS OWNER OFFERING SECRETARIAL AND DESKTOP PUBLISHING SERVICES. RECENTLY, I COMPILED A DIRECTORY OF NAMES AND ADDRESSES FOR A CLIENT. I DELIVERED THE DIRECTORY TO THE CLIENT, BUT WOULD LIKE TO KNOW WHO NOW OWNS THE LIST. DO I HAVE THE RIGHT TO USE THE LIST AND/OR USE IT WITH OTHER CLIENTS?

Answer: There are several factors that must be considered in order to come up with an answer to this question. First, you must determine this was a "work for hire." If it was, your client could copyright the list and keep you from reusing it. There are nine types of work that may be considered "work for hire" by non-employees. They include:

- Contributions to a collective work such as magazines or newspapers.
- Part of a motion picture or other audio/visual work.
- A translation.
- A supplementary work (forewords, charts, editorial notes, etc.).
- A compilation.
- An instructional text.
- Test.
- Answer material for a test.
- An atlas.

A directory would most likely fall under the category of a compilation. However, merely paying someone to do something does not constitute a work for hire arrangement. You need a signed agreement (before the work is started) that it is a "work for hire." In addition, a "work for hire" must be copyrightable. According to the Copyright Handbook, a "work must be the product of a minimal amount of creativity to be protected by copyright. The selection and/or arrangement cannot be so mechanical or routine as to require no creativity whatsoever." While your directory may or may not be copyrightable, the mailing list would not be and you may have the right to use it.

You may determine that you have the right to use the list you have compiled for a client, but your client may feel differently. Maintaining good client relations may be the prevailing factor in your final decision.

9. I HAVE BEEN PRESENTED WITH A "BUSINESS OPPORTUNITY." HOW DO I KNOW IF IT IS LEGITIMATE?

Answer: An individual looking at a business opportunity should ask the following questions before moving forward:

- Does this offer sound too good to be true?
- Am I being pressured to buy today?
- Can I afford to lose my investment?
- What do I really know about this individual or company?
- Does the Better Business Bureau have any reports on the company?
- Have complaints been filed with the State Attorney General's office?

The Federal Trade Commission has developed these seven basic precautions:

- Study the required disclosure statement and proposed contracts carefully.
- Consult with an attorney or other professional advisors before making a binding commitment.
- Be sure all promises made by the seller are written into the contract.
- Talk with others who have already invested in the business.
- Investigate all earnings claims carefully. Earnings claims must be in writing.
- Comparison-shop other franchise or business opportunities.

10. WHERE CAN I GET A GRANT TO START MY BUSINESS?

Answer: Most start-up companies will find it very difficult, if not impossible, to qualify for grant dollars. Grants do not have to be repaid and although everyone would like to obtain one, they are not readily available to business start-ups. Three things that you should understand about grants:

- Need – Grants are usually available to solve societal problems or address societal opportunities. Improving the competitiveness of industry, employing people with disabilities or recycling trash are all issues that might receive grant funding because they address special needs of society. Starting a retail or service business or designing a retail product are not projects granting agencies typically wish to support.
- Responsiveness – The second fundamental thing you need to know about grants is that the grant application MUST be responsive to the needs of the granting agency. No one cares that you need money to start a restaurant or photo studio. These are businesses that are started every day without the assistance of grants. You can't just do what you think is a good idea; you must do what the granting agency thinks is a good idea. This requires research into the granting agency to understand its needs and requirements.

- Competition – The lure of free money has a strong appeal and attracts many more applications than available money. It is not unusual for granting agencies to receive 10 - 100 applications for every grant available. The successful applicant is likely to be networked with the right people including political entities, non-profit organizations and agency professionals.

TIP: Be wary of the grant seminars that are presented in cities throughout the nation offering free money from the government and other grants to start or operate a business. These may be schemes to make money without regard to you!

11. MY BUSINESS IS IN MY HOME. DOES MY HOMEOWNERS INSURANCE COVER MY BUSINESS?

Answer: Maybe, maybe not. It depends on your policy. A standard policy may give you "\$2,500 coverage for personal property at the insured location used at any time or in any manner for business purposes." What exactly does this mean? Let's look at some definitions.

- Personal Property – Personal property owned by you as an individual. Property that you bought personally and you use in your business would fall under this definition. Items purchased specifically for your business and written off as a business expense on your tax filing might not qualify.
- Insured Location – This is the address shown on your policy. If you take any of your personal property away from home (e.g. laptop computer, samples, and products for sale) there may not be coverage.
- Business – Business means any full or part-time trade, profession, occupation or enterprise undertaken with the prospect of financial gain. Often, a standard homeowner's policy gives only a limited amount of coverage for property used for a business in the home. Additionally, under the liability section of your homeowner's policy any bodily injury or property damage arising out of your business pursuits is most likely excluded.

Ensure you discuss your policy with your home owner's agent and make any necessary additions based on your risk assessment. You may need to seek other insurance from a different agent/company.

12. HOW CAN I MAKE SURE MY BUSINESS IS PROPERLY INSURED?

Answer: Talk to an insurance agent or broker licensed to sell commercial (business) insurance. Agents that sell personal insurance such as auto, home, boat, recreational vehicle, retirement or health insurance may not be licensed to sell commercial insurance. Your insurance representative should understand commercial insurance and should take the time to learn about your particular business needs. Be wary of any insurance representative that quotes prices for insurance without first studying your specific needs and business situation. You can check the following website to insure they are properly licensed <https://insurance.mo.gov/CompanyAgentSearch/search/search-agents.php>.

13. WHAT KIND OF INSURANCE SHOULD I BUY FOR MY BUSINESS?

Answer: It depends on the business, what you can afford, and what risks you are willing to accept. There various policies that you should review with your commercial insurance representative: Commercial General Liability, Product Liability, Professions Liability, Commercial Property, Commercial Auto, Homebased Business, Business Interruption, Data Breach, Worker's Compensation, Bonding and Umbrella insurance. With the exception of commercial general liability insurance, not every category will apply to every business. However, commercial general liability insurance is a "must have" for all businesses.

14. WHOM SHOULD I CONTACT FOR BUSINESS INSURANCE?

Answer: You should contact a person licensed to sell commercial insurance; either a commercial insurance broker or a commercial insurance sales representative. They are licensed by the State of Missouri to sell business insurance. A broker will usually represent more than one insurance company whereas a sales representative usually works for one company. Search for companies that list commercial or business insurance as one of their products. Those companies that list only personal insurance such as auto, home, boat, life, recreational vehicle, and health typically are not licensed to sell commercial insurance and will not be able to help you. You can check the following website to insure they are properly licensed <https://insurance.mo.gov/CompanyAgentSearch/search/search-agents.php>.

15. IS WORKER'S COMPENSATION INSURANCE REQUIRED FOR MY BUSINESS?

Answer: All businesses with five or more employees (except agricultural or domestic labor) must provide worker's compensation insurance to protect their workers in case of job related injury, illness or death.

Construction companies with one or more employees are required to carry this insurance. Companies can obtain this protection through a private insurance carrier. Premiums are based on the risks associated with each occupation and are determined by the State of Missouri. Contact the Division of Workers' Compensation, at (573) 751-4231 or (800) 775-2667, visit <https://labor.mo.gov/employers#mini-panel-employers-tabs2> or consult with your attorney or insurance representative.

16. IS UNEMPLOYMENT INSURANCE REQUIRED FOR MY BUSINESS?

Answer: Most companies doing business in Missouri are required to pay unemployment insurance to protect workers during periods of unemployment. This applies to most businesses having one or more workers on their payroll for 20 weeks during the calendar year, and to businesses paying an individual employee \$1,500 or more in a given quarter. Contact the Division of Employment Security, (573) 751-1995, labor.mo.gov/employers#mini-panel-employers-tabs1.

17. WHAT SHOULD I KNOW ABOUT APPLYING FOR A BANK LOAN?

Answer: There are five criteria that a commercial loan officer will review with you in your initial visit:

- Cash – Most often you the starting point for your cash contribution is at least 20%. Depending on any number of variables some lenders may require 25-30% or even up to 50% depending upon the risk, but the minimum you can be expected to contribute is 20%. At 20%, if your business project is estimated to cost \$25,000, the bank will request that you put at least \$5,000 of your own money into it if they are to consider lending you the remainder of \$20,000.
- Collateral – all lenders look for a secondary source of loan repayment that is called collateral. You are expected to pledge additional material assets that are equal to or greater in value than the loan itself. These assets must be free and clear of debt or you must have a substantial equity (cash) investment in them such as would be found in a bank account or other cash asset, a house, land, or heavy equipment. Your lender will discount the value of your collateral assets, generally 20-50 % of appraised values, depending on their perceived risk in reselling them. If you seek a \$20,000 loan, expect to pledge assets with net cash values of \$25,000 or greater.

- Capacity – the ability of the business to pay back the loan. For the business owner, capacity could be viewed slightly differently, it is the ability of the sales to cover all of its expenses, meet the owner’s personal financial needs and leave money in the business. Capacity is established in your business plan; both your financial statements and the logic that supports the numbers shown in your financials.
- Character – based in large part on your personal history of handling money, primarily looking at your credit and personal financial situation. If you have credit issues stemming from something beyond your control, for example illness, discuss it with your loan officer, especially if it has been several years and you have a good current record. However, if the issues are the result of poor financial management, chances are your lender will not be interested in making a loan.

Character could also encompass all aspects of your personal history. For example, what is your business background, what do you know or what is your experience with the product or service. Other examples that could be considered are not being a convicted felon, not being in the middle of a divorce and having stability to demonstrate your ability to repay financial obligations. Lenders are always concerned about getting repaid and look for assurances in your character that you will meet your obligations. Lenders also look for past experience in managing a business especially in the specific industry you have chosen.

- Conditions – the economic climate of your industry, your market area and the overall economic conditions. Conditions could also encompass the interest rate and terms of the loan. The higher the risk, the higher the interest rate. A loan for start-funds, working capital and/or initial operating expenses will most likely be for between 5 to 7 years, occasionally 10 years. A real estate loan will have a longer term.

18. HOW DO I GO ABOUT GETTING A BUSINESS LOAN?

Answer: It starts with a business plan. A lender will not consider lending an individual money unless he or she can prove in writing that they have completed the research, developed a plan of action and can demonstrate that they have the knowledge and experience to operate a business. A well-written business plan can make the difference between loan approval and denial. The plan should have a table of contents, be typed, be easy to read, and have the supporting documentation necessary for the lender to make an informed decision. A business plan should be presented to the lender by the business owner(s) in person so that the lender will have the opportunity to review it and ask questions as necessary.

19. HOW DO I GET AN SMALL BUSINESS ADMINISTRATION (SBA) LOAN?

Answer: You start by preparing a sound business plan and then approaching lenders or other agencies who accept SBA loans. SBA does not make direct loans to individuals. SBA guarantees loans made by banks and other private lenders. The guarantee lowers the potential loss exposure for the lender, therefore enabling the lender to make a business loan that otherwise might be considered too risky. You will not need to contact SBA as you will work through your lender. However, SBA has a good web site that you may wish to visit at www.sba.gov/.

20. WHY IS MARKET RESEARCH IMPORTANT?

Answer: You need to know everything there is to know about your industry, market area, competition and customers. What are the new trends in my industry? Who is in my market area and what is going on? Are my competitors offering new products or services? What is really important to my target customers, what do they base their purchasing decision on? To stay ahead, it's essential that you monitor everything that's happening in your business environment. But you ask, "How?"

Most busy small business owners don't have the time or the resources to devote to sophisticated and expensive market research. Here are ten simple, inexpensive market research techniques to try that work:

- Network – You can start by getting to know your competition and other business owners in the community on a friendly, personal basis. For example, meeting informally after hours works great for some. For others, just walk into their business, identify yourself and start talking. Sometimes you may need advice or want to give them a suggestion; other times they may have a suggestion for you. Business people appreciate the camaraderie and you'll be surprised at the many problems you share in common. They'll also become good friends.
- Search the internet – Search for the service or product you are planning on providing and you'll quickly discover your competitors' specialties. Armed with that knowledge, you may decide to target a different market segment or go head-to-head with them.
- Ask a friend – Your competitors may not appreciate your visits to their business to see what's new. Ask a friend to help out. They can observe changes and also get on the mailing list.
- Call your competitors – Many competitors have an 800 number. Use it to learn if the competitor has a surplus of certain inventory or is offering specials on certain items. Learn how they handle customer inquiries.
- Attend conferences, trade shows and meetings – Why attend? Because your competitors, customers and suppliers will be there. Trade shows give you a wonderful opportunity to view your industry's products and services. They allow you to meet your competitors, customers and suppliers in person and talk to them. While visiting your competitors' booths you can pickup marketing materials, observe how they interact with potential clients, and figure out what you need to do better.
- Go to the library – Trade magazines, case studies, industry directories, credit reports, statistical collections and computer services await you. Many college libraries will allow you to use their resources also. Your trade association is a good source of industry information. Their library resources will allow you to profile competitors and get a better understanding of your industry and the customers it serves.
- Ask customers – Who knows the word on the street better than customers do? Just ask them if they've ever used your competition, what their impressions were, and why they're now shopping with you. You'll learn more than you thought possible. (Don't forget your competition will be doing the same thing).
- Ask your workers – Casual conversations with your employees can reveal all kinds of tidbits. After all, they rub shoulders with distributors, suppliers, sales people, customers and others who know your competition and industry firsthand.
- Read – If you're not reading your local newspaper(s) daily, you should start. Scan all the sections, focusing on the business pages. Frequently a local business will be profiled or mentioned as part of a larger story. Also subscribe to trade journals and newsletters pertaining to your business. They will highlight industry trends, legal rulings and new developments. Chances are your competitors use this information to make decisions, so should you.
- Foster relationships with non-competitors – Visit businesses similar to yours in non-competing markets. This is a first class way to expand your knowledge and discover up-and-coming trends. Try to foster a mentor in a different geographic area that offers an opportunity to exchange ideas and information.

21. HOW MUCH MONEY WILL I NEED TO GET STARTED?

Answer: Your planning will tell you how much is needed. Consider for different types of costs:

- Start-up costs
- Initial operating expenses
- Working capital
- Emergency funds

The sum of these four will be how much you need.

Every business will be different but if you expect to borrow money to get started, you will need at least a 20% equity position (cash investment) in your business. (Most lenders require more). This equity position is best described as your ownership in the business that is free and clear of debt.

In the pre-start-up phase, it's best if you don't spend any of your own monies until the lender has approved your loan. Lenders prefer that your equity investment be in the form of cash. Although they will accept other forms of equity such as land, buildings, and heavy equipment that become part of the business, they are usually reluctant to give you equal value for the monies invested unless they were involved in the purchasing decisions from the beginning. In addition to your equity position, you will also be expected to have money in collateral items (material assets that you own) with a dollar value equal to or greater in value than the borrowed monies.

For example, if you determine through the business planning process that your start-up expenses will be \$50,000, you can be expected to demonstrate a cash contribution to the business of at least \$10,000 (20%). In addition, you will be expected to pledge material assets (collateral) with a net value of \$40,000 or more to cover the amount of the loan in the event of default. The value lenders place on collateral varies greatly and is always discounted so don't be surprised if you are asked to pledge collateral you think is worth 1½ to 2 times the amount of the loan. (Note: A house with an appraised value of \$100,000 and an \$80,000 mortgage has a net value of \$20,000. For collateral purposes, a lender will usually discount a single-family residence 20%, placing a value on this collateral at \$16,000).

22. WHERE CAN I GET MONEY TO GET STARTED?

Answer: There are a number of sources where you can obtain monies to get started in a business but none of them will come without some form of risk and expense. The primary source of money will be from your own personal funds. This could be from a savings account, insurance policy, retirement plan, home equity loan or some other personal investment that can be easily converted to cash. Although you may be reluctant to use these monies, especially if you think you can find someone else's money to use, just remember that no one is likely to lend you money if you don't put yourself at risk first.

Other sources of funds could include family and friends, partners, credit cards, bank loans, credit unions (for personal loans only), investors, suppliers and customers. You may also consider renting or leasing instead of buying, to reduce heavy outlays of cash in the start-up phase.

23. ON MISSOURIBUSINESS.NET, THE TAX CHAPTER IN DOING BUSINESS IN MISSOURI MENTIONS THAT CRAFT SELLERS MUST CHARGE THE SALES TAX AT THE POINT OF SALE. DOES THIS AFFECT ANY OTHER TYPES OF BUSINESSES? WHAT ABOUT MULTI-LEVEL MARKETING COMPANIES OR OTHER HOME-BASED BUSINESS OWNERS WHO TAKE THEIR PRODUCTS TO VARIOUS LOCATIONS?

Answer: This pertains to anyone who sells at retail in various locations. The idea is that the sales tax is collected at the point of sale and includes any local sales taxes. So, if you are located in Kansas City and sell from your home, you charge the local sales tax rate. If you go to a show in Springfield and sell at the show, you charge the sales tax rate for Springfield and report those sales separately on your sales tax report. Frequently, vendors at shows report their sales under an umbrella provided by the organizer of the show. In the case of multi-level marketing companies, the parent company may collect and submit sales tax for their distributors. This varies between companies. Of course, if you are crossing state lines you should have a sales tax license in each state and submit taxes accordingly.

24. I HAVE SEVERAL QUESTIONS ABOUT TAXES. WHERE CAN I GET ASSISTANCE?

Answer: The tax laws and their applicability to your business vary from business to business. This is an area that consultation with a tax attorney or certified public accountant is highly recommended. Contact the Missouri Bar Association for information on finding legal assistance. They can be reached at (573) 636-3635. You can also use their lawyer search feature at <http://missourilawyershelp.org/find-lawyer/>. For the Springfield area, you can call (417) 831-2783.

For a CPA referral, seek a recommendation from a business you know and respect. You could also contact the Missouri Society of Accountants, 6132 Blue Ridge Blvd., Ste.B, Raytown, Missouri 64133 at (800) 959-4276 or <https://www.missouri-accountants.com>

ESRI (21-DAY FREE TRIAL)

ArcGIS Business Analyst

<http://www.esri.com/software/businessanalyst>

Information on demographics, consumer spending, tapestry segmentation, market potential, and traffic counts.

CENSUS BUSINESS BUILDER

Small Business Edition

<https://cbb.census.gov/sbe/#>

Information on construction businesses, food services, healthcare, personal services, professional & business services, and retail. Reports include demographics, consumer characteristics, and consumer spending.

OSEDA

Office of Social and Economic Data Analysis

<https://oseda.missouri.edu/>

Information includes demographic profiles for the state of Missouri and the U.S.

MERIC

Missouri Economic Research and Information Center

<https://www.missourieconomy.org/>

Information on economic indicators (cost of living, population, unemployment), industry studies, occupation studies, community issues, and regional profiles.

REFERENCEUSA (FREE MANY LIBRARY CARDS)

Firs log into your library website and then search or go to the ReferenceUSA database.

Competitor or potential client information including contact name, address, telephone number, number of employees, sales volume, and business expenditures.

LOCAL CONTACTS

Small Business & Technology Development Center

www.missouribusiness.net

Small Business Administration

www.sba.gov

SCORE

<https://www.score.org/>

Internal Revenue Service

(800) 829-4933

www.irs.gov

Local IRS offices in Missouri

<https://www.irs.gov/help/contact-my-local-office-in-missouri>

Missouri Department of Economic Development

301 W. High Street, Room 680

PO Box 1157

Jefferson City, MO 65102

www.ded.mo.gov

Missouri Department of Revenue

Harry S Truman State Office Building

Jefferson City, MO 65101

(573) 751-3505

www.dor.mo.gov

Missouri Business Tax Contact Information

<http://dor.mo.gov/contact/business.php>

Missouri Division of Professional Registration

3605 Missouri Boulevard

P.O. Box 1335

Jefferson City, MO 65102

(573) 751-0293

<http://pr.mo.gov/contact-us.asp>

Secretary of State Office

600 West Main Street

Jefferson City, MO 65101

Main Office: (573) 751-4936

www.sos.mo.gov

Chamber of Commerce

<http://www.2chambers.com/missouri2.htm>

County Collector of Revenue

County Sheriff

City Business License Office

Police Department