

## NEW BUSINESS GUIDE

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# STARTING A BUSINESS: DOS AND DON'TS

Many different issues must be considered when starting a small business. It is important to plan properly and avoid common pitfalls. As you determine whether or not to start a business, consider these suggested dos and don'ts of starting a small business:

## Dos

- Do consider risk versus reward. Business ownership is a balance between the reward of success and the risk of failure. Each individual must define success and consider how much risk is tolerable.
- Do take the time to write a good business plan. It is very important not to skip this step or rush through it. The time you spend planning before you open your business will pay off in the long run.
- Do understand that starting and operating a small business is extremely time consuming and can be very stressful.
- Do keep in mind that a new business can be very demanding on your personal financial resources. If you are having trouble making ends meet personally, starting a business will likely make the situation worse. Remember, the new business owner is the last person to get paid and often does not get paid.
- Do pay your taxes. State and federal tax agencies assess heavy penalties for late payments and can file liens, seize assets, or even close the business if taxes are not paid. As a business owner, you must be knowledgeable about your tax responsibilities.
- Do understand the government regulations that affect your industry (OSHA, EPA, FDA, DHHS, etc.) as well as the costs associated with complying with the rules and regulations.
- Do have a clearly defined target market. Understanding your potential customers will help you in determining the demand for your product or service and enable you to develop a more successful marketing strategy.
- Do be prepared to use your own money to start your business. Most businesses are started with money from personal savings, family, or friends. Keep in mind that lenders are usually not willing to loan you all of the money needed to start the business.
- Do determine whether or not your business idea is feasible before going into business. Developing a business plan which includes financial projections is essential in determining the feasibility of your business idea.
- Do consider working with professionals such as an accountant, bookkeeping service, and/or an attorney as part of the cost of doing business and include those costs in your budget. Most

people who avoid the expense of using professionals for specialized services make mistakes that cost them both time and money in the long run.

- Do determine the types of records you will have to keep for tax purposes as well as for management control before you start the business.
- Do have your bookkeeping system in place before you open your business. Consider working with your accountant to help you establish that system.

## Don'ts

- Don't assume the financing process will go quickly. Allow plenty of time to obtain financing. Keep in mind that obtaining a business loan is more involved than obtaining a personal loan.
- Don't underestimate the costs of starting and operating a new business. It is important to obtain actual price quotes related to starting and operating a business. Don't just estimate!
- Don't over project sales. A common mistake is to be overly optimistic regarding expected sales levels in the first year of operation. Keep in mind that it often takes longer than expected to build sales. Therefore, it is important to be conservative.
- Don't forget to budget for adequate working capital for your new business. The cost of starting a business isn't limited to the actual costs for equipment, inventory, fixtures, etc. You will also need to make sure you have enough funds for operating expenses as you build the business.
- Don't underestimate the length of time it takes for a business to be ready to open. This is especially true if construction is involved or specialized equipment must be ordered. Keep this in mind when determining the amount of funds required.
- Don't underestimate competition. Many new businesses too narrowly define their competition and don't really understand the number of businesses that are competing for their potential customers. Be sure to consider both direct and indirect competition.
- Don't underestimate the amount of marketing (and time) required to build a customer base in a new business. You must develop a good marketing plan in order to reach your market and convince them to purchase your goods/services.
- Don't assume there is demand for your product or service. You must research whether or not adequate demand for your product or service exists.
- Don't assume that you can obtain a grant to start your business. Small business grants are scarce. To our knowledge, there is no grant money available for starting a small business. For more information on grants, review *Small Business Grants* on the ASBTDC website.
- Don't assume you will be able to obtain a loan. Obtaining a loan to start a new business can be

challenging. Carefully review the sections in this guide on *Can I Qualify for a Loan?* (page 17) and *Obtaining Small Business Financing* (page 16).

- Don't use all of your personal resources to start your business now and assume you'll get a loan later for the rest of the money you need once you get the doors open. Keep in mind there is never a guarantee that you'll be able to obtain a loan. In addition, lenders often view this situation as poor planning.
- Don't sign leases or contracts before financing is in place unless those agreements are contingent upon receiving financing.
- Don't assume that your workers can be independent contractors. Many small business owners assume they'll save money by classifying workers as independent contractors rather than employees. However, this determination is based on IRS guidelines. Misclassification can result in significant financial liabilities.
- Don't underestimate the value of employer-provided benefits such as insurance and leave time if you are currently employed. Many people believe that they can make more money on their own rather than working for someone else. However, you must calculate the costs of supplying your own health insurance, for example, when considering whether or not to own your own business.
- Don't rely on positive comments by friends and family to determine if you have a good idea for a business. These comments are rarely honest feedback and are based on assumptions rather than research and fact.
- Don't depend on someone else to write your business plan. This is your business. Once you have a basic plan in writing, seek an outside evaluation or review of that plan.

# STARTING A NEW BUSINESS ACTION STEPS

If you are considering starting a new business, the Arkansas Small Business and Technology Development Center recommends the following Action Steps. The steps are designed to help you learn about the critical issues related to starting a new business and to guide you through the planning process.

## **Step 1: Attend “Starting a Business in Arkansas.”**

This seminar is offered by the ASBTDC on a regular basis at locations throughout the state. It is highly recommended to those who are new to small business ownership. The class covers topics such as issues to consider when going into business; business feasibility and planning; licenses, permits, and tax requirements; and financing considerations. A calendar of upcoming *Starting a Business in Arkansas* seminars is available on the ASBTDC website, [asbtdc.org](http://asbtdc.org).

## **Step 2: Develop a business plan.**

Developing a business plan is one of the most critical steps in starting a new business. Not only will developing a plan improve chances for business success, it can also serve as a communication tool for potential lenders in obtaining financing for the business. The ASBTDC website offers many resources for those in the business planning process. Once a draft plan has been developed, the ASBTDC can provide a business plan review providing you with feedback and advice.

## **Step 3: If financing is needed, submit business plan to a potential lender.**

When trying to obtain a small business loan, submit your plan to your lender to determine if the lender is interested in financing your project. However, it is advisable to learn about the realities of small business financing and qualifying for a small business loan before talking with your lender. Review *Obtaining Small Business Financing* on page 16 and *Can I Qualify for a Business Loan?* on page 17 of this publication.

## **Step 4: Finalize startup requirements.**

Once you have secured financing for the business, you can take care of issues such as obtaining licenses and permits, sign leases, make purchases, and open the business.

As you have additional questions or need assistance, please contact your local ASBTDC office using the directory on the back page of this publication. ASBTDC’s knowledgeable staff members are available to talk with you about your questions and concerns.

## STEP 1: ATTEND TRAINING

### “Starting a Business in Arkansas” Seminar

ASBTDC’s basic seminar prepares you for the business planning process, identifies major steps crucial to starting a business, discusses key issues that affect your business success, and discusses startup requirements and common pitfalls you will face as an entrepreneur.

This 2.5-hour program is offered regularly in various locations throughout the state. Check the ASBTDC website, [asbtcd.org/training](http://asbtcd.org/training), for information about upcoming seminars.

## STEP 2: DEVELOP A BUSINESS PLAN

### Is My Business Idea Feasible?

Keep in mind that not every business idea is feasible. Therefore, it is important to not just assume that your business idea will be a success. Determining whether or not your business idea is feasible involves examination of the financial, personal, and market realities of your business idea. Understanding business feasibility helps you make a more informed decision. There are three essential components of a successful business: market, management, and money.

#### **Market**

A business cannot exist without customers. Therefore, when considering feasibility, it is essential to ask yourself, "Is there an adequate market for my product or service?" You must determine if there is enough demand for your products and services to support your business. Understanding your customer base, their buying habits, and ultimately your businesses market potential is critical. You should also consider the competition. Is there room in the marketplace for another business that provides those products and services?

#### **Management**

The management skills and experience of the owner and/or management team directly affect business success or failure. As a business owner, you will be forced to deal with a wide variety of issues including financial management and cash control, marketing, purchasing, inventory management, advertising, personnel management, tax and government regulations, etc. Your ability to manage these issues will be an important factor in the success or failure of your business. A successful business owner can recognize his/her personal limitations and seek assistance when needed.

#### **Money**

Everyone knows that starting a business costs money. In fact, money is often the primary focus of new business owners, and little consideration is given to the issues of market and management. If both the market and management are in place, you must determine if you have access to the resources needed to start and operate a new business. You must also consider whether or not the business can financially sustain itself. Estimating the costs of starting the business and calculating profit potential and cash flow will help you determine the financial feasibility of your business idea.

### **Making the 'Go' or 'No Go' Decision**

Careful evaluation of the three key ingredients of a successful business – market, management, and money – will help you make an informed decision about going into business. After working through your business plan, you may determine one or more of these key ingredients are missing from your business. If so, it is best to recognize that problem before opening the doors. You may find ways to overcome the problem by adjusting your idea and strategy, or you may determine not to proceed at all. Only you can make the final decision about whether or not to open a business.

# Writing a Business Plan

## Why Do I Need a Business Plan?

*The business plan is a key component for a successful business. A plan is vital because it:*

- Provides an organized system for researching your business
- Drastically increases your chances of success
- Provides a game plan for your business to follow
- Provides insight into your business to facilitate funding and investment

Aside from these general business plan objectives, remember that every plan is unique. Don't struggle with trying to make your plan "fit" into the generic mold. Always customize your plan to your specific business objectives. Be clear, concise, and detailed. Focus on the quality of the content, rather than the quantity of pages.

This business plan outline serves as a guide on how to format your business plan. Each section contains questions that focus your attention on important aspects of the plan. Do not simply answer the questions. Provide detailed information on each issue in narrative form. Finally, this outline can be altered to fit your preferences. Sections may be rearranged to fit your needs.

Once complete, the business plan should identify the expectations you have for your new or existing business. If you plan to utilize the plan to obtain financing, the completed plan should "tell the story" of your business to a potential lender. The plan should serve as a stand-alone document, addressing all business issues and not requiring additional verbal explanation. Review your plan regularly and make appropriate changes when your plans and strategies change.

## Business Plan Contents

The following is a suggested list of ingredients for your business plan, in the order they should appear in the final version:

### Cover Page

Provide your company name, address, and contact information, along with name(s) and contact information for primary contact(s).

### Summary

WRITE THIS LAST! Summarize your business plan. Be enthusiastic and concise. Include business goals, objectives, and monetary amount desired if applying for a loan.

### Products/Services

Clearly identify the type of business as well as the products and services you will offer. Describe the product or service from your customer's point of view. What services are offered as part of the product (delivery, service, warranty, support, and/or refund offers)? What are your distribution channels?



## The Market

Describe your market, including your customers and your competition, and explain what sets your business apart from competitors. Use statistics, demographic research, and industry information where appropriate. Be as specific as possible. Remember to cite your sources.

- **Customers** – Describe your customers, their characteristics, and location. Why do they trade with you? What do they like about your company?
- **Competition** – List major competitors, describing their size, location, and reputation. Compare your goods and services with theirs. What are their major advantages? What are yours? What value do you bring to customers that competitors do not?
- **Location** – Discuss your location needs. What kind of space do you require? Is it leased or owned? Why is the area desirable? Why is the building desirable? Is it easily accessible?
- **Marketing Strategy** – Explain your pricing policy. How do you promote, advertise, and sell? How do you distribute or deliver your products/services? What customer services will you offer?

## The Industry

What are the characteristics and trends of your industry? State whether it is growing or declining or changing. What is the size of your market? Research your share of the market. Is it growing? Are more firms entering the industry and becoming increasingly competitive? List any current barriers to entry (such as special licensing or permits). List strengths, weaknesses, opportunities, and threats.

## Operations and Management

Illustrate that you know how to run the business and deliver your product or service. One of the most critical, yet most intangible, requirements for a successful business is the management skill to control and direct the business once it is operating.

Who has management responsibilities? Include the résumés of key managers as supporting documents. Include position descriptions for all key employees. List important advisors, such as attorney, accountant, banker, insurance agent, and advisory board or board of directors. Include estimated financial costs and necessary services provided.

## Budget & Financial Projections

The budget provides the numbers that correspond to your written plan. Historical and/or projected figures should be included. In addition, you should always include a narrative explaining the assumptions you used to arrive at the dollar value of sales, expenses, etc. You must demonstrate that your numbers are reasonable. Detailed financial information is critical to the business planning process, whether you are starting or expanding.

- **Startup Expenses and Capital** – Carefully calculate and categorize all startup expenses including inventory, rent, etc. For example, what amount will be needed for renovations

and equipment? Remember to include any cash you may need to operate and pay bills until the business begins generating cash. Provide a detailed list of equipment, furniture, and/or fixtures to be purchased. Include actual price quotes for larger items.

- **Financial History** – If yours is an existing firm, include the income statements, balance sheets and/or tax returns for the past three years.
- **Profit and Loss Projection (Income Statement)** – Include a monthly profit and loss projection for at least 12 months of business operation. Be sure to provide a written explanation of assumptions used to develop your projections.
- **Cash Flow Projection** – Include a monthly cash flow projection for at least 12 months of business operation. The cash flow projection differs from the profit and loss statement. Cash flow statements illustrate how much and when cash flows in and out of your business. Be sure to provide a written explanation of assumptions used to develop your projections.
- **Projected Balance Sheet** –Your plan should include a projected balance sheet showing assets (things owned), liabilities (debts) and owner’s equity. If yours is a start-up business, the balance sheet should show your financial position on opening day.

### Supporting Documents

- Résumés for owners and management
- Personal financial statements from all principals
- Historical financial statements (existing businesses only)
- Tax returns (existing businesses only)
- Contracts and/or letters of intent from suppliers and customers
- Copies of leases, licenses, permits, or any other legal documents
- Any document referred to within the plan but not included in body

## **More Information, Help, Resources, and Tools**

The ASBTDC website offers many resources for those in the business planning process, including training programs, action steps for writing a business plan, a business plan outline and sample, as well as other relevant articles and information. There is an entire section devoted to writing a business plan. Once a draft plan has been developed, the ASBTDC can conduct a business plan review providing you with feedback and advice (Arkansas businesses and residents only).

As you have additional questions or need assistance, please contact your local ASBTDC using the directory on the back page of this publication. ASBTDC's knowledgeable staff members are available to talk with you about your questions and concerns.

## **“How to Write a Business Plan” Class**

A business plan will help you define your concept, evaluate your competition, determine risks, and estimate your costs. ASBTDC's live seminar will explain and illustrate the business plan format. Participating in a business plan seminar will provide you with a good foundation as you begin to develop a plan for your small business. To find a seminar near you or to register, visit [asbtdc.org/training](http://asbtdc.org/training).

# Conducting Market Research

## What Is Market Research?

In order for a business to be successful, a market (demand) for the business's products or services must exist. Determining if a market exists, as well as the size of that market, is a critical part of planning. Market research is the process of gathering information about your business's customers, industry, and competitors. Conducting market research is time intensive, but this important step should not be overlooked. In its simplest form, market research intends to find your customers, identify what products and/or services they need, and determine the best ways to sell your product or service.

## Why Do I Need Market Research?

### **Determine the demand for your product or service and how to reach your customers.**

Market research helps to determine if your product or service is a viable idea. Do customers want this product? Is there a similar product already on the market? What is the best geographic area for your business to target? Is there a need for the product in the area? For instance, selling snowmobiles in Florida is probably not a feasible idea.

### **Determine revenue projections, seasonality, etc.**

Market research helps to identify the size of your potential market. You must know the number of target customers located in the geographic area you've identified. Market research also helps to determine how many products you can sell in a given period. If you sell a product that lasts for approximately 6 months, you can most likely assume that a customer will not make an additional purchase in 2 months. Finally, if you sell a product or service with seasonality as a factor such as swimwear, you can estimate the timing of customer purchases (spring break, summer, etc.).

### **Identify potential customer groups and understand current customers.**

Market research helps you understand and locate your customers. What customer groups are most likely to buy your product? If you know, for instance, that your customers are primarily women you can formulate your strategy to target female consumers. Additionally, you can customize your place of business to cater to your target customer. You must be able to develop a customer profile (description) of your target customer group(s).

### **Determine the appropriate marketing strategy for your customers.**

Once you have identified who your customer is, you can determine the best way to reach them. Determining an appropriate marketing strategy to directly target your customer enables you to make the most out of your marketing budget.

### **Determine desirable store locations or other methods of distributing your product or service.**

Market research can help you determine the best method for distributing products/services to your customer. If your business requires a storefront, market research can help you evaluate potential locations. For example, it is better to locate a gas station in a location of moderate traffic rather than a less traveled road? Are competitors located nearby?

### **Assess the product/service's likelihood to sell.**

In addition to identifying the need for your product or service, market research helps to determine if the product or service will be a big seller in a particular area. Performing market research will identify similar products, new trends, buying patterns of your customers, etc.

### **Understand the competitive nature of the industry.**

Market research identifies current competitors of your product or service. It is important to understand the competition in comparison to your offerings. Are competitors currently satisfying the need? Are there many competitors in the area? What is the likelihood that new competitors will enter the market?

## **What Types of Information Are Considered When Doing Market Research?**

### **Demographics**

Market research identifies important demographic information about your customers including population, age, income, education, sex, ethnicity, housing, occupation, and more.

### **Population Trends**

Is the population growing in your area? Declining? What age group is growing the fastest? Is your target customer group growing?

### **Industry Trends**

Is your product new or innovative? Is your product or service a "lasting" one or just a "fad?" Are there changes within the industry in the way business is conducted? For example, consider the changes in the movie rental industry over the last few years as well as the future direction of the industry.

### **Statistics**

Market research identifies specific statistics and benchmarks for your industry. For example, what are average revenues for this industry? What are the average sales per square foot? How many new businesses entered the market?

### **NAICS Code**

The North American Industry Classification System (NAICS) is a numerical code system used by the U.S. Census to classify business types and gather data. Each type of business has an industry code ([www.census.gov](http://www.census.gov)). Other organizations also use this coding system to organize data. Once you determine your NAICS code, you can locate information on your specific business.

## **How Do I Integrate the Market Information into the Business Plan?**

After you collect your market research information, you must determine how to utilize it within your business plan. Market research should be the "evidence" as to why your business will be a success. If you determine there aren't enough people in your market to buy your product, it may be best to locate your business elsewhere or adjust your business strategy. Additionally, if you realize your industry is declining (i.e. typewriters), you need to reconsider your business idea.

Refer to market research findings throughout your business plan and cite your sources. In addition, you must show you've used this information to help you draw conclusions about your market. In other words, it isn't enough to just quote the source – you must show how the information affects your business. It is important to show how you've used this information to develop assumptions about your market, competition, and customer demand. You should also be realistic in your expectations of market research. It is unlikely that you'll locate the perfect piece of information that holds all the answers. Rather, effectively using market research in your plan means looking at a variety of sources and drawing conclusions based on many clues. It also may mean analyzing information to determine which information you feel is most relevant to your business.

## Where Should I Look for Accurate Sources of Market Information?

- Industry Sources
- Trade Associations
- Government Sources (Census, SBA, Department of Labor, etc.)
- Newspapers
- Journals
- Trade Magazines
- Internet

The ASBTDC also has access to many information resources to assist in the market research process. To access this information, please contact your local ASBTDC using the directory on the back page.

Once you have obtained and analyzed your market research information, it will become the foundation of your business plan. Research data is important because it supports the basic assumptions in your financial projections - your reason for going into business. Good market research will lend credibility to your business plan with lenders/investors and help you demonstrate feasibility of your business. However, market research isn't just for the benefit of lenders/investors. As you're planning for your business, it is to your benefit to objectively determine whether or not there is a market for your product or service. Why would you want to start a business or expand a business without gathering as much evidence as possible? The stakes are too high not to spend time investigating the market.

Furthermore, keep in mind it is best to approach the market research process objectively. Don't just make the information fit into the desired outcome you have in mind. To be successful, a small business owner must know the market. Market research is simply an orderly, objective way of learning about people – the people who will buy from you.

# Choosing the Right Site for Your Business

Selecting a site for your new business is one of the most important decisions you will make in the business planning process. The wrong location can lead to increased hardships for a new business and in some cases, can even lead to business failure. It may be tempting to choose a site based on price. While price is very important, it should not be the only factor in your decision. There are many other issues which should also be considered when choosing the right location for your business.

## **Suitability of the Space**

When choosing a location, you must consider the needs of the business. Does the space fit the needs of the business or can it be adapted to meet those needs? Will special electrical, plumbing, or other construction be required? What improvements will be needed in that space? How much will improvements cost? Is there room for growth or expansion in the future?

## **Accessibility to Customers**

If customers will be visiting your business, accessibility is very important. Is it easy for customers to enter and exit the facility as well as the parking lot? Is there adequate parking? Is the site secure and well lit? Is it handicap accessible? How will the flow of traffic, particularly during peak times, affect your customers' ability to enter and exit? Is it convenient? Does the site have good visibility?

## **Image**

Does the appearance of the space give the impression you are trying to convey to customers? This is particularly important if customers will be visiting your establishment. Consider expectations of your target customer group. Consider the type and image of businesses and the area surrounding the location.

## **Lease Terms**

If you are planning to lease a space, it is important to thoroughly review the terms of the lease agreement. The lease agreement determines who is responsible for what. For example, who is responsible for general maintenance on the facility? Who is responsible for leasehold improvements? Does the lease provide options to renew at an acceptable rate? Are there restrictions for signage and use of outdoor areas around the space? If you are considering purchasing or building a facility, what is the comparison of costs and availability of financing for leasing versus buying? What are the benefits of each?

## **Location**

The area where your business will be located is very important if customers will be visiting your business. Be sure to review the demographics of the area and compare those to that of your customer base. It is important to determine whether or not your target customers live or work in proximity to your business. It is important to consider the demand for your product/service relative to the number of competitors in your trade area. It is also important to investigate relevant zoning ordinances and other restrictions on the location.

## STEP 3: APPLY FOR FINANCING

### Obtaining Small Business Financing

At some point, most small business owners require financing for their business. The majority of small business financing comes from personal resources, friends and family, and small business loans.

#### The Financing Process

Most small business loans are obtained through working with a lender (local bank, non-bank lender, or national lender). Therefore, to obtain a loan, you must find a lender that is interested in working with you on your project. A business plan (new or existing businesses) or loan proposal (existing businesses) should be used to communicate the nature of your project and business with a potential lender. Completing actual loan application forms is something that comes later in the process. Initially, you should focus on developing a quality business plan or loan proposal.

#### Qualifying for a Loan

Lenders consider a variety of factors when making a decision on a small business loan. Therefore, it is important not to automatically assume that you will be able to obtain a business loan. Understanding loan requirements from a lender's perspective before talking with your loan officer can help you identify any areas where you may face challenges in obtaining a loan. Identifying potential problem areas can help you be better prepared. The ASBTDC recommends that you review *Can I Qualify for a Business Loan?* on the next page of this booklet.

#### SBA Small Business Loan Programs

Many business owners choose to utilize the Small Business Administration's small business loan programs. SBA small business loans are not direct loans. Loans are provided through financial institutions (i.e. bank or non-bank lender). Therefore, to obtain an SBA loan, you must first locate a lender that is interested in working with you on your project. To determine if a lender is interested, you should submit a business plan (start-up or existing businesses) or a loan proposal (existing businesses). Additional information regarding the various SBA loan programs can be found on the SBA website at [sba.gov](http://sba.gov).

#### Grants

Many myths abound about grants for small businesses. The reality is that grants for small businesses are relatively rare since most grants are for non-profit organizations or educational institutions.

#### The Role of the Arkansas Small Business and Technology Development Center

The ASBTDC can assist existing and potential small business owners as they work through the financing process. The ASBTDC offers a variety of resources including training programs, informational articles, and recommended action steps. In addition, ASBTDC staff can answer questions, provide guidance and direction, review business plans/loan proposals, and aid in the preparation of loan application packages. *The ASBTDC does not give business loans, nor does the ASBTDC have any input in lending decisions.*



# Can I Qualify for a Business Loan?

Whether you are applying for an SBA loan or a traditional bank loan, there are certain factors that improve your ability to obtain financing. This self-test is designed to assist you in understanding important issues that lenders consider when making a decision on a small business loan.

## **1. Do you have a good personal credit history?**

Research indicates that good personal credit history is one of the most important factors in identifying borrowers that will repay their business loans. When a lender makes a decision on a small business loan, he/she will consider the personal credit history of the borrower. A bad credit history can be the basis for denying a small business loan.

a) If you do not have a recent credit report, find out about ordering one by contacting TransUnion ([www.transunion.com](http://www.transunion.com)), Experian ([www.experian.com](http://www.experian.com)), or Equifax ([www.equifax.com](http://www.equifax.com)). If you have credit problems that can be explained by a one-time incident such as a medical problem, provide information to a potential lender about the problem and how it has been rectified.

b) If you have filed for bankruptcy in the past 7 years (10 years for an SBA loan), or have slow payments, collections, etc. then it may be difficult to obtain financing now. If your poor credit history can be explained by a particular incident, supply information on the situation and how you attempted to repair past credit problems. If you have consistent credit problems, you will need to “repair” your credit history and rebuild your credit track history. Call your local Consumer Credit Counseling Agency (CCCA) for assistance. For the Arkansas CCCA nearest you, call (800) 255-2227.

## **2. Do you have enough money of your own to put into the business?**

All loan programs require that the business owner put some of their own money into the business. This owner equity injection shows that the owner believes in the business enough to risk his/her own money and reduces the amount of monthly debt payments that the business must make. Virtually all loan programs, including SBA loans, will require a reasonable contribution from the owner(s). A good rule of thumb is 20% or more equity injection. The more equity, the more favorably potential lenders will look upon the loan request. *Neither banks nor SBA provide 100% financing.*

## **3. Have you filed your personal/business income and business taxes?**

Lenders and government loan programs alike want to see that an individual has met his/her tax obligations for both filing and paying taxes. Many of the loan programs are in partnership with government agencies. These loan programs do not look favorably on individuals or businesses who have unpaid income and/or business taxes. For SBA loans, an income tax verification is obtained from the IRS before a loan is closed.

#### ***4. Have you demonstrated that your business has the ability to repay a loan?***

##### **For existing businesses:**

If the business is profitable, this helps to demonstrate repayment ability of the new debt. If a business is not profitable, it becomes very important to prove how it will be profitable in the near future so that a loan can be repaid. ASBTDC training seminars and consulting can assist you in this process.

##### **For startup businesses:**

You must demonstrate that the business will be able to repay the loan. It is very important that you find as much data as possible on comparable businesses or industry statistics in order to “prove” the revenues you intend to generate and the expenses you anticipate incurring. This is accomplished by writing a business plan. Writing a business plan provides an organized system for researching your business as well as insight into your business to facilitate funding and investment. ASBTDC seminars such as “Starting a Business in Arkansas” and “How to Write a Business Plan” can assist you in this process. For assistance in locating industry research or information, contact your local ASBTDC office.

#### ***5. Do you have any collateral to secure a business loan?***

Business and personal assets can be considered collateral, or a way to repay the loan if the business defaults on the loan. Most collateral is valued at an amount less than market value based on a variety of factors. Although the SBA will not deny a loan due solely to the lack of, or amount of, collateral, the more collateral one has, the more likely a deal will be favorably considered. Unwillingness to pledge assets can be a basis for denial.

#### ***6. Does your business have a positive net worth?***

##### **For existing businesses:**

The net worth of the business should be positive. If there are loans from shareholders on the balance sheet and you are able to subordinate these (not pay the shareholders) while you pay the bank loan back, you may consider these loans from shareholders as equity.

#### ***7. Does your business currently have low levels of debt?***

##### **For existing businesses:**

Businesses that have too much debt will find that their profits are directed at paying back loans and not building retained earnings in the business that can fund future growth. Consequently, banks and government loan programs look more favorably at loan requests that do not add too much debt to the business. Banks often look for a debt to net worth ratio of 3 or less (total liabilities divided by equity). ASBTDC consultants can assist you in assessing your debt situation.

# Start-Up Cost Worksheet

The cost of starting a business is often referred to as the “project cost.” This amount will include several types or categories of costs. In order to help you calculate the various costs associated with your project, we have provided a worksheet below. For each category, you should have a separate sheet or list that itemizes the specific costs in that group. The itemized lists are particularly important in the financing process and will also provide you with the detail you need to make sure you haven’t forgotten any costs.

The purpose of this worksheet is to help you determine all of the start-up costs, whether you are financing them with your own capital or outside funding. Therefore, all start-up related costs should be included regardless of how they are being financed.

## Worksheet Part 1: PROJECT COST

Category	Cost
<b>Land/Building Acquisition:</b> If you are purchasing a building or land, the cost and the purchase price is included in this category. If you already own the land or building where you plan to locate your business, the market value of that land and/or building should be included in this category.	
<b>New Construction:</b> If your project requires construction of a new building, the cost of that construction will be included in this category.	+
<b>Modification Of Existing Facility:</b> If your project requires that an existing facility be modified, the cost of that modification should be recorded here. This also applies if you plan to lease a facility which needs to be modified and the cost of those modifications will not be borne by the landlord.	+
<b>Equipment, Furniture, And Fixtures:</b> If you must purchase equipment, furniture and fixtures for your business, the cost of these items will be included here. Also, if you own equipment, and will contribute it to the business, the value of that equipment is included here.	+
<b>Initial Inventory:</b> If your project involves the sale of merchandise, you will need an initial stock of inventory. The cost of this inventory is one of your project costs.	+
<b>One-Time Start-Up Expenses:</b> You may have expenses that will occur only in your start-up phase. These may include rent/utility deposits, appraisal fees, loan origination or closing fees, etc. These should also be taken into consideration in the project cost determination.	+
<b>Other Working Capital:</b> You need to include in your project cost enough cash to pay the company’s monthly expenses until it is generating sufficient cash to cover all operating costs. You will have an idea about the business’ monthly operating costs as well as your business’s cash needs once you have completed your first year’s profit/loss and cash flow projections.	+
<b>Total Project Cost:</b> This total of the above items should include the cost of the items you will need to purchase as well as the	=

value of the items that you are contributing to the project.

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## Worksheet Part 2: FINANCING REQUIRED

Once you have determined the total project cost, you can then calculate the amount of additional financing which is needed to start your business. To determine financing needs, subtract the owner

**Total Project Cost (From Start-Up Cost Worksheet Part 1)**

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Minus Amount of Owner Cash/Asset Contribution: This is the amount of cash you have to contribute to starting the business and/or the market value of any assets you are contributing to the business.

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Minus Amount of Cash from Other Sources: This includes investors as well as gifts from friends and family. In addition, this includes funding from any other source such as vendor financing for equipment, etc.

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**Total Amount of Financing Needed:** To calculate the amount of financing needed, subtract the Owner Cash Contribution and Cash from Other Sources from the Total Project Cost.

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cash contribution and the amount financed by other sources from the total project cost.

## STEP 4: FINALIZE STARTUP REQUIREMENTS

### Licenses, Permits & Tax Requirements

Because there is extensive cost in time and fees and paperwork involved, obtaining licenses, permits, and tax requirements may be one of the last steps to take before opening a business. There are different requirements at the city, county, state, and federal levels that apply to different aspects of businesses. *This information is arranged by level of government. Local contacts are given for the Little Rock/North Little Rock metro area. For businesses located outside of this area, contact your local municipalities for information.*

Many occupations and/or businesses are regulated by an agency or board specific to that business type or occupation. Make sure the business or job function you perform is properly licensed by the appropriate regulatory agency. It is impossible to list all possible legal requirements for any business. This handout offers guidelines only. This is why it is so important to have experience in or knowledge of the particular business. Business research should be thorough and ongoing to keep up with regulatory changes as they occur. Ask a lot of questions.

### Local Requirements

#### Zoning Approval

#### Building & Sign Permits

Before applying for a business license, first verify that the type of business and its physical location complies with local zoning regulations. Although there is no fee associated with verifying zoning compliance, permit application fees to change zoning status vary.

- Zoning laws vary significantly throughout the state. Where zoning laws apply, they are strictly enforced.
- Generally, zoning approval is a one-time occurrence.
- Zoning offices can supply business license applications.
- If the proposed business site is not in compliance, you must apply for a permit to change the current zoning.
- Home-based businesses must apply for a home occupation permit. Certain limitations apply.
- Signage for your business requires a sign permit.
- If you plan to build a new building or to alter an existing building, apply for a building permit.

Please contact:

City of Little Rock, Planning and Development

723 W. Markham Street

501-371-4790

[www.littlerock.org/citydepartments/planninganddevelopment/](http://www.littlerock.org/citydepartments/planninganddevelopment/)

City of North Little Rock, Planning Department  
120 Main Street  
North Little Rock, AR 72114  
501- 975-8835  
[http://nlr.ar.gov/government/a\\_z\\_department\\_list/planning](http://nlr.ar.gov/government/a_z_department_list/planning)

To learn more about signage for your business:  
[www.sba.gov/smallbusinessplanner/start/pickalocation/signage/text/types.html](http://www.sba.gov/smallbusinessplanner/start/pickalocation/signage/text/types.html)

### **Business License** (also known as privilege license)

After verifying zoning compliance, the next step is to apply for a business license. The application fee for obtaining a business license will vary between \$50 to over \$1,000 depending on the type of business and amount and kind of inventory.

- Some cities and counties do not issue business licenses.
- Generally, business licenses are renewed annually.
- Apply for a business license in the city in which the business is physically located. If located outside of the city limits, contact the county collector or clerk's office.
- If the business has a physical location in other cities, inquire about a business license for these cities.
- Businesses located outside the city limits may still need a business license to operate within the city limits.
- Depending on the type of business, there may be additional licenses and fees.

Please contact:  
City of Little Rock  
Department Director and Treasurer  
500 Markham Street (City Hall) #208  
501-371-4806  
[www.littlerock.org/citydepartments/finance/](http://www.littlerock.org/citydepartments/finance/)

City of North Little Rock, Business Licenses  
120 Main Street  
North Little Rock, AR 72114  
501-975-8888  
<http://nlr.ar.gov/>

## **Registering a Business Name**

### **Doing Business As (DBA) Certificate**

Sole proprietors and general partnerships operating their businesses under fictitious or assumed names must apply for a DBA certificate with the county in which the business is physically located. Contact the local county courthouse.

- In Pulaski County, a DBA application fee is \$25 and generally a one-time occurrence.
- A business name change, ownership change or business closure, will require filing an amendment at this office.
- The county clerk's office will conduct a complimentary name search for the business.
- Inquire about a DBA application if a business is incorporated, but operating under another

business name.

- A DBA does not protect or reserve a business name.

Please contact:

Pulaski County Clerk's Office

401 W. Markham, Ste. 100

Little Rock, AR 72201

501-340-8446

[www.pulaskiclerk.com](http://www.pulaskiclerk.com)

### **Incorporating Your Business**

Contact the Arkansas Secretary of State's Office to incorporate or register a state trademark. A business is not required to incorporate. Secretary of State's Office employees will not give any legal advice regarding the pros and cons of incorporating.

- There is a one-time, \$50 (\$45 online) filing fee to incorporate. Thereafter, a corporation will pay an annual franchise fee – a minimum of \$150.
- Incorporating a business offers individuals a safeguard in protecting personal assets from liability.
- Incorporating ensures a business name will not be used by other incorporated businesses within the state. However, a trademark offers the best name protection.
- The Secretary of State's Office can conduct a complimentary name or trademark search for the business. (See Internet address below to perform a search.)

Please contact:

Arkansas Secretary of State's Office, Business/Commercial Services Div.

1401 West Capitol Avenue, Ste. 250

Little Rock, AR 72201

501-682-3409

[www.sos.ar.gov/corp\\_ucc.html](http://www.sos.ar.gov/corp_ucc.html)

### **Determining the Legal Form of a Business**

Be sure to research and discuss the specific advantages and disadvantages of each form of ownership with a qualified accountant or attorney before you finalize your decision. If incorporating, contact the Arkansas Secretary of State's Office. Incorporating can be done using the Secretary of State's online services, as well as by searching their database of incorporated businesses to see if the business name is available. (Use the URL address referenced in the "Incorporating Your Business" section.) If a business files and never does business as a corporation, the business is still responsible for annual franchise taxes. The fee to dissolve a corporation is \$50 plus all back franchise taxes.

Please contact:

Arkansas Secretary of State's Office, Business/Commercial Services Div.

1401 West Capitol Avenue, Ste 250

Little Rock, AR 72201

501-682-3409

[www.sos.ar.gov/corp\\_ucc.html](http://www.sos.ar.gov/corp_ucc.html)

## Business Property Assessment

### Property Taxes

A business owner must assess the property of the business (building, equipment and furnishings, but not land). The deadline for assessing is May 31. Be sure to assess immediately if purchasing an existing business (to avoid liability, make sure there are no back taxes before buying a business). Taxes can be paid the first working day of March through October 10th without a penalty. There is a 10% penalty for missing the assessment deadline. After having completed a worksheet listing the business property by category, the assessor will generate an invoice based on the business' amount, age, and type of equipment. Don't forget to itemize leased equipment; however, the owner of the equipment is the one taxed.

Please contact:

Pulaski County Assessor's Office  
201 S. Broadway, 3rd Floor, Room 310  
Little Rock, AR 72201  
Phone: 501-340-6170  
[www.pulaskicountyassessor.net/](http://www.pulaskicountyassessor.net/)

## Federal Requirements

### Employer Identification (EIN) Number

Employer Identification Numbers, also known as Federal Employer Identification Numbers, are used to report withholding taxes and should be applied for 6-8 weeks prior to hiring. Apply for an EIN application (SS-4) if hiring employees, incorporating or operating a partnership, administering a Keogh plan, filing excise, alcohol, tobacco and firearms tax returns, or opening a bank account in the name of the business. The SS-4 application can be downloaded at [www.irs.gov](http://www.irs.gov).

Applications can be submitted via mail, internet, phone, or fax to the IRS.

Some vendors or suppliers will ask for a business' EIN.

Requesting an EIN will not necessarily trigger an IRS audit or place scrutiny on the business.

Once issued an EIN, the IRS will forward a booklet and materials for remitting federal withholding taxes on a monthly or semi-weekly basis and submitting tax reporting on a quarterly basis.

Please contact:

Internal Revenue Service (IRS), Tax Payer Education  
Federal Building, 1st Floor  
700 West Capitol  
Little Rock, AR 72201  
Phone: 501-324-5111 OR  
Business Specialty Tax Line: 800-829-1040  
[www.irs.gov](http://www.irs.gov)

### Federal Income Tax

The earnings of a business are subject to federal income taxes. The legal structure of the business determines how those taxes are paid. Refer to IRS Publication 583 for more information.

[www.irs.gov/publications/p583/index.html](http://www.irs.gov/publications/p583/index.html)



## **Federal Labor Laws**

Contact the U.S. Department of Labor if the business' sales are over \$500,000 and there are greater than 4 employees. Ask questions about child labor laws, minimum wage, Occupational Safety and Health Administration, the Americans with Disabilities Act, and the Family Medical Leave Act.

To learn more about OSHA requirements and workplace safety:

[www.osha.gov](http://www.osha.gov)

To learn more about the ADA:

Call 800- 514-0301 to receive materials and publications.

[www.ada.gov](http://www.ada.gov)

## **Immigration**

Employees must complete Form I-9, "Employment Eligibility Verification Form."

To learn more about immigration:

800- 375-5283 "Ask Immigration"

[www.uscis.gov/graphics/index.htm](http://www.uscis.gov/graphics/index.htm)

Please contact:

U.S. Department of Labor

10421 West Markham

Little Rock, AR 72205

Phone: 501-682-4500

## **Federal Unemployment Tax (FUTA)**

FUTA works with state unemployment systems. Currently, the tax rate is 6.2% and is applied to the first \$7,000 in wages paid to each employee during the year. Employers may take a credit against the FUTA tax for amounts paid into state unemployment funds. If entitled to the maximum credit, the FUTA tax rate is .8%. Employers utilizing independent contractors do not pay FUTA tax on these individuals. FUTA tax deposits occur quarterly, using Form 940 or 940-EZ.

Please contact:

Arkansas Department of Workforce Services

Phone: 501-682-3200

<https://www.dws.arkansas.gov/>

## **State Requirements**

### **State Labor Laws**

State labor laws apply to those employing four or more people and gross sales under \$500,000. If sales are over \$500,000, the Federal labor laws apply. Contact the Department of Labor's Little Rock office with questions concerning minimum wage, overtime, and child labor laws. Also, use the website listed

below.

Please contact:

Arkansas Department of Labor  
10421 West Markham, 1st Floor  
Little Rock, AR 72205  
Phone: (501) 682-4500  
[www.state.ar.us/labor](http://www.state.ar.us/labor)

### **State Withholding**

If the business has employees and has already received an Employer Identification Number, register with the Department of Finance and Administration for a state withholding information packet. Use Form AR4ER, obtained from the Department of Finance and Administration.

- The EIN issued by the IRS will be the same number used by Arkansas for the purposes of state withholding.
- Upon receipt of the request, the Department of Finance and Administration will forward materials to the business for remitting state income tax on a monthly basis, and submitting tax reports on a quarterly basis.

Please contact:

Arkansas Department of Finance and Administration  
P. O. Box 8055  
Little Rock, AR 72203  
Phone: 501-682-7290  
[www.state.ar.us/dfa/](http://www.state.ar.us/dfa/)  
[www.arkansas.gov/dfa/income\\_tax/tax\\_wh\\_forms.html](http://www.arkansas.gov/dfa/income_tax/tax_wh_forms.html)

### **State Income Tax**

The earnings of a business are subject to state income taxes. The legal structure of the business determines how those taxes are paid.

Please contact:

Estimate Tax Unit (Sole Proprietors)  
P. O. Box 9941  
Little Rock, Arkansas 72203-9941  
501-682-7272

Partnership Tax Unit

P. O. Box 3628  
Little Rock, Arkansas 72203-3628  
501-682-7243

S Corporation Unit

P. O. Box 3628  
Little Rock, Arkansas 72203-3628  
501-682-7284

Corporation Income Tax Section

P. O. Box 919  
Little Rock, Arkansas 72203-0919

501-682-4775

## Tax Guide for New Businesses

Arkansas Department of Finance and Administration

<https://portal.arkansas.gov/agency/department-of-finance-and-administration/service/tax-guide-for-starting-a-new-business/>

## Sales and Use Tax

To apply for a permit, submit an application along with a \$50 non-refundable fee to the location referenced below. For more information on sales and use tax, or to download the booklet "Starting a New Business in Arkansas," log onto [www.state.ar.us/dfa/taxes/salestax/index.html](http://www.state.ar.us/dfa/taxes/salestax/index.html).

- This department will issue a sales and use tax permit number. It is not the same number as the EIN.
- All retail businesses, including e-retailers, and some service businesses should have a sales and use tax permit. Use Tax is paid on goods if purchased out of state and the seller does not collect sales tax.
- Taxes are paid monthly. If the business collects \$25 or less, taxes are reported quarterly or semiannually.
- Check on the status of tax liability when buying an existing business. Sellers should provide buyers with a current statement from the Sales and Use Tax office.

Please contact:

Arkansas Department of Finance and Administration

Revenue Department

1900 West Seventh, Room 2047

Little Rock, AR 72201

Phone: 501-682-7168

[www.state.ar.us/dfa/taxes/salestax/index.html](http://www.state.ar.us/dfa/taxes/salestax/index.html)

## Other Taxes

Depending on the business and the products/services sold, there may be additional special state tax requirements. For more information, consult the Department of Finance and Administration's Tax Guide for New Businesses. [www.arkansas.gov/dfa/income\\_tax/tax\\_guide\\_overview.html](http://www.arkansas.gov/dfa/income_tax/tax_guide_overview.html)

## Local Taxes

There are more than 275 local taxes in Arkansas. Local municipalities (cities and counties) define their respective tax rates, so it's a good idea to become familiar with local taxing authorities. Depending on their location, restaurants and lodging facilities may be required to collect an additional sales tax (sometimes referred to as a "hamburger" tax) that is remitted to local advertising and promotion commissions.

In Little Rock, please contact:

Little Rock Convention and Visitors Bureau

P.O. Box 3232

Little Rock, AR 72201

Phone: 501-370-3201

[www.littlerock.com](http://www.littlerock.com)

<https://www.littlerockchamber.com/economic-development/>

In North Little Rock, please contact:  
North Little Rock City Clerk's Office  
300 Main Street  
NLR, AR 72119  
Phone: 501-340-5318  
<http://nlr.ar.gov/>

## Insurance Requirements

### State Unemployment Insurance

Call the Arkansas Employment Security Department to register the business' Employer Identification Number. The insurance rate is usually around 3.3% on the first \$9,000 for each employee and is paid quarterly.

Please contact:  
Arkansas Department of Workforce Services  
#2 Capitol Mall  
Little Rock, AR 72201  
Phone: 501-682-3200  
<https://www.dws.arkansas.gov/>

### Workers' Compensation Insurance

Applies to businesses with three or more employees, less depending on the type of business. Proprietors and partners do not count as employees; however, all members of corporations do count as employees. Contact a licensed insurance agent for more information. Employers must post a sign in a conspicuous place informing employees how to handle a workplace injury.

Please contact:  
Arkansas Workers' Compensation Commission  
324 Spring Street  
P. O. Box 950  
Little Rock, AR 72203  
Phone: 501-682-3930  
[www.awcc.state.ar.us](http://www.awcc.state.ar.us)

## Arkansas Special Licenses, Permits, and Inspections

### Occupational Licenses

To research the regulations that apply to specific occupations in Arkansas, refer to the Directory of Licensed Occupations, available at the ASBTDC Research Center or search a database of Arkansas occupations using the Web site listed below.

Please contact:

Arkansas Department of Workforce Services

Phone: 501-682-3200

[www.acinet.org/acinet/LicensedOccupations/lois\\_state.asp?nodeid=16&by=occ](http://www.acinet.org/acinet/LicensedOccupations/lois_state.asp?nodeid=16&by=occ)

### **Restaurant and Food Services**

Contact the state or the county sanitarian, an on-site inspector of restaurants and food preparation facilities. Anyone in food services, such as food processing, restaurants, caterers, mobile food units, convenience stores and bed and breakfasts must have their kitchen plans approved before establishing these businesses. These rules also apply to home-based businesses.

Please contact:

Arkansas Department of Health

Division of Environmental Health Protection

4815 West Markham

Little Rock, AR 72205

Phone: 501-661-2000

[www.healthysarkansas.com](http://www.healthysarkansas.com)

### **Permit to Serve Alcohol**

The Alcoholic Beverages Control Division (ABC) conducts a 4-hour educational seminar twice monthly. Applicants are required to attend before a permit is issued. Plan to attend even if buying a business with an existing permit. Permit fees range from \$40 to \$1000, plus a federal occupational tax of approximately \$250.

Please contact:

Arkansas Department of Finance and Administration

Alcoholic Beverages Control Division

1515 West Seventh, Suite 503

Little Rock, AR 72201

Phone: 501-682-1105

### **Permit to Sell Cigarettes, Tobacco, Amusement, and Vending Machines**

To apply for special permits to sell these types of goods or to operate amusement or vending machines, contact the miscellaneous tax section of the Department of Finance and Administration.

Please contact:

Miscellaneous Tax Section

Ledbetter Revenue Building

7th & Wolfe

Little Rock, AR 72203

Phone: 501-682-7187

[www.arkansas.gov/dfa/excise\\_tax\\_v2/mt\\_index.html](http://www.arkansas.gov/dfa/excise_tax_v2/mt_index.html)

### **Adult or Senior Day Care**

To receive a packet of regulations for adult or senior day care facilities, contact the Department of Human Services.

Please contact:

Arkansas Department of Human Services

P.O. Box 8059, Slot S201  
Little Rock, AR 72203  
Phone: 501-682-8650  
<https://humanservices.arkansas.gov/>  
<https://medicaid.mmis.arkansas.gov/>

### **Child Care**

To receive a packet of regulations for child care facilities, contact the Department of Human Services.

Please contact:

Arkansas Department of Human Services  
Division of Child Care & Early Childhood Education  
P.O. Box 1437  
Little Rock, AR 72203  
Phone: 501-682-8590  
[https://humanservices.arkansas.gov/images/uploads/dccece/2019\\_CCC\\_mlr.pdf](https://humanservices.arkansas.gov/images/uploads/dccece/2019_CCC_mlr.pdf)  
<https://humanservices.arkansas.gov/about-dhs/dccece/child-care-licensing>

# Forms of Business Organization

Source: Mitchell, Selig, Gates & Woodyard, Little Rock, Arkansas

One decision you will need to make before beginning operations is the legal structure of your business. Your legal structure influences numerous elements within your operations, including tax filing requirements and insurance needs. This information is provided to give you a basic overview of some of the elements of various legal structures. It is not intended as a comprehensive presentation of the differences between the forms of business organization. It is best to consult a certified public accountant and/or attorney for advice.

Characteristics	Sole Proprietorship	General Partnership	Limited Partnership	Corporation "C" Type	Corporation "S" Type	Limited Liability Company
<b>Formalities</b>	No formal filing requirements; only compliance with local licensing requirements applicable to business	No formal filing requirements and it is not necessary that there be a written partnership agreement (although one is suggested); compliance with local licensing requirements is necessary	Filing of Certificate of Limited Partnership with Secretary of State	Filing of Articles of Incorporation with Secretary of State and compliance with other statutory formalities	Filing of Articles of Incorporation with Secretary of State and compliance with other statutory formalities, such as applying for the "S" designation from the IRS.	Filing of Articles of Organization with Secretary of State
<b>Continuity of Existence</b>	The proprietorship dies with the proprietor. Business property is considered personal property and will part of the owner's estate at time of death.	Death or withdrawal of a partner generally dissolves the partnership	Death or withdrawal of a limited partner will not generally dissolve a limited partnership. The partnership exists and dissolves according to the provision of the written agreement.	Perpetual existence; no dissolution upon death of shareholder(s)	Perpetual existence; no dissolution upon death of shareholder(s)	The date of dissolution must be stated in Articles of Organization; death or withdrawal of a member, or assignment of a member's interest will generally cause dissociation (dissolution)
<b>Liability</b>	The sole proprietor is liable for all obligations of the sole proprietorship	Each partner is liable for obligations of the partnership equally.	Limited partner's liability for obligations of the limited partnership is limited to such partner's equity investment in the partnership. However, general partners have personal liability for excess debt.	Generally, liability of shareholders for corporate obligations is limited to the amount of the shareholder's investment in the corporation	Generally, liability of shareholders for corporate obligations is limited to the amount of the shareholder's investment in the corporation	Generally, liability of members for obligations of the LLC is limited to the member's amount of investment in the LLC. Members can be held liable for their own personal unlawful acts.
<b>Transferability of Interest</b>	Sole proprietor has complete freedom to transfer all or any portion of the proprietorship business, although such transfer constitutes a transfer of individual assets	No right to transfer partnership interest (except right to receive distributions) without consent of other partners	Limited partnership interests generally are freely transferable and are subject only to limited partnership agreement.	Generally, shares are freely transferable unless subject to contractual limitations and the articles of incorporation.	Generally, shares are freely transferable unless subject to contractual limitations and the articles of incorporation.	Interests of members generally are not freely transferable and are subject to the operating agreement.
<b>Tax</b>	(1) Single taxation; sole proprietor reports business income and deductions on individual tax return; (2) Self Employment Tax – currently 15.3%	A partnership is not a separate taxable entity; income or loss flows through to partners	Flow-through taxation to limited and general partners	Separate taxable entity subject to corporation taxation and dividends to shareholders are also taxed as income to shareholders.	Treated like a partnership for tax purposes; flow-through taxation to shareholders	A LLC is treated like a partnership for tax purposes; income or loss flows through to the members. Single member LLCs are also subject to 15.3% self employment tax.

<b>Management and Control</b>	Sole proprietor has full right of management and control over business affairs	Unless otherwise agreed each partner has equal right to management and control; each partner is the agent of the partnership and one partner can bind all of the other partners to ordinary business obligations of the partnership	Limited partners have no right to exercise management or control over the business of the partnership and can lose their limited status by doing so	Ownership and control are separate; shareholders do not manage the business in their capacity as such; business is managed by officers subject to supervision and control of Board of Directors; When two or more shareholders exist, serious consideration should be given to executing a Shareholders' Agreement clarifying the rights of shareholders among one another with regard to such matters as sale of stock to each other or third parties, dissension regarding the direction of the company, election of directors, etc.	Ownership and control are separate; shareholders do not manage the business in their capacity as such; business is managed by officers subject to supervision and control of Board of Directors; When two or more shareholders exist, serious consideration should be given to executing a Shareholders' Agreement clarifying the rights of shareholders among one another with regard to such matters as sale of stock to each other or third parties, dissension regarding the direction of the company, election of directors, etc.	Members may designate one or more managers (who do not have to be members) or may reserve the management to themselves; control and management duties are set out in the Operating Agreement, which is analogous to the partnership agreement in the partnership context or the bylaws in the corporate context
<b>Sources of Capital</b>	Limited to funds invested by sole proprietor, funds borrowed from outsiders, and income generated from business	Same as sources for sole proprietorship except there will be more than one source of invested funds (i.e., two or more partners rather than one proprietor)	Same as general partnership, except it is generally easier to attract capital with limited partnership because of passiveness of investment and limitation of liability	Similar to partnership and proprietorship except there is an even greater number of potential investors because of variety of forms that corporate investments can take (e.g., differing classes of common stock, preferred stock, debt instruments, etc.)	Similar to partnership and proprietorship except there is an even greater number of potential investors because of variety of forms that corporate investments can take (e.g., differing classes of common stock, preferred stock, debt instruments, etc.)	Depending on the number of members, it should generally be easier to attract capital because of potential sources of invested funds and limitation of liability



# Insurance Considerations

## Essential Coverage

### Property Insurance

In the event of a fire, your company must have the ability to replace lost assets in order to continue operation. Property insurance covers your physical assets including your building, equipment, furnishing, inventory, computers, and records. Many insurance companies bundle the property and liability insurance coverage into an economically priced business owner's policy. You can then tailor the insurance package to extend the coverage to risks that are inherent to your geographic region or industry.

### Liability Insurance

Any incident involving your company, its facility or vehicles, its products or services, or its personnel, and resulting in either bodily or personal injuries can be the subject of a suit involving your company (and you). The losses resulting from such a suit can range from time loss and court and attorney fees to large damage awards. Liability insurance protects you from most of these costs. Using a competent agent who is well versed in the complexities of this area is critical. Because one lawsuit over a seemingly trivial matter can result in a damage award great enough to destroy your company, having liability insurance with generous policy limits is a must.

### Automobile Insurance

In Arkansas, any vehicle is required to carry liability insurance or other proof of financial responsibility. This, of course, applies to any vehicle used for your company's business activity. When any employee or subcontractor uses a vehicle on your behalf, you can be legally liable even though you do not own the vehicle. As with other assets in the business, in the event the vehicle is damaged, you need to be able to pay for its replacement or repair. Collision/comprehensive coverage will facilitate this. If the vehicle is financed, the lender will usually require this coverage.

### Workers' Compensation

Federal and common law require that an employer provide employees with a safe workplace, hire competent fellow employees, provide safe tools, and warn employees of an existing danger. If an employer fails to provide these, he is liable for damage suits brought by employees and he may be subject to fines and prosecution. If your employees are covered by workers' compensation insurance, their remedies against you are limited to those prescribed by workers' compensation regulations. In other words, having workers' compensation insurance on your employees will protect you from substantial liability suit awards. This insurance is sold by commercial carriers, but the rates are strictly regulated by the state. It is critical that you use an agent who is knowledgeable of the risk categories and how they apply to your employees. In Arkansas, it is best to assume that your business will be required to carry this insurance unless your insurance professional advises you to the contrary.

## Desirable Coverage

### Business Interruption Insurance

In the event your business is forced to suspend operations temporarily because of fire or other similar circumstance, this type of insurance can provide funds for salaries to key employees, taxes, interest, utilities, and even lost profits. Similarly, if your business is interrupted because of a fire or other peril affecting a supplier or customer, that interruption can also be covered. With business interruption insurance in place you may be able to keep key employees and hasten the return to business after a fire or other insured peril. There are variations of this type of insurance and the extent to which it will cover your risks.

### Employee Benefit Coverage

As a small business owner offering group health insurance as an employee benefit can be an invaluable asset in recruiting and retaining highly qualified individuals. Because of increasing health care costs, group health benefits have become a major job benefit for many companies. Having a good group plan may enable you to keep qualified personnel even when they may be able to obtain higher paying jobs elsewhere. Many plans can be tailored to fit the size of your business and your specific needs. For more information on group health plans and the benefits of obtaining insurance for your employees, contact your insurance carrier.

### Crime, Glass, and Rental Insurance

These types of insurance cover special risk situations that may apply to your business, depending on its location, environment, and facility. They should be discussed with an insurance professional to determine their applicability to your situation.

### Home-Based Businesses

Home-based business owners must not assume that their existing homeowner's insurance policies will protect their business and its assets. These policies typically provide limited or no coverage for business losses. It is important to speak with your insurance agent about separate property and liability policies to cover the potential damages or claims on the business.

# The Basics of Hiring Employees

Making the decision to hire employees is a significant step for any business. As an employer, you must consider many critical issues to ensure compliance with employment rules and regulations. The following are some of the key issues to consider when hiring employees.

## **Apply for an Employer Identification Number (EIN)**

Employer Identification Numbers, also known as tax ID numbers, are used to report withholding taxes and should be applied for 6-8 weeks prior to hiring. You should apply for an EIN (SS-4) if hiring employees, incorporating or operating a partnership, administering a Keogh plan, filing excise, alcohol, tobacco and firearms tax returns, or opening a bank account in the name of the business. The SS-4 application is available at [www.irs.gov/pub/irs-pdf/fss4.pdf](http://www.irs.gov/pub/irs-pdf/fss4.pdf).

## **Verify Employee Eligibility and Obtain Employee Forms**

As an employer, you are responsible for verifying the legal employment eligibility of each new hire. The Federal Immigration Reform and Control Act of 1986 obligates employers to have new employees complete the Form I-9, Employment Eligibility Verification. Additionally, employees must also complete the Form W-4, Employee's Withholding Allowance Certificate. These forms must be retained as a part of the employer's records. For additional information and online forms, visit the IRS website:

<https://www.irs.gov/businesses/small-businesses-self-employed>

## **Recognize the Difference Between Employees and Independent Contractors**

When a business hires employees, the business must generally withhold federal and state income taxes, pay federal and state unemployment, and withhold as well as pay Social Security and Medicare taxes on each employee. In contrast, if a worker is classified as an independent contractor, these responsibilities are eliminated or are shifted to the worker.

Properly classifying a worker as an employee or independent contractor is an extremely important decision. Many businesses assume they can reduce their expense and paperwork burden by arbitrarily "classifying" their workers as independent contractors. However, proper classification is based on IRS guidelines, not on employer preferences.

*The Internal Revenue Service has very strict guidelines as to who can be classified as independent contractors. The 20 classification factors relate to various aspects of the relationship between the business and the worker, specific responsibilities of the worker, and the way the worker conducts his assignments. These 20 factors are listed in detail in the Employers Supplemental Tax Guide, IRS Publication 15-A. The publication also gives various examples of types of employer-employee/independent contractor relationships.*

[www.irs.gov/pub/irs-pdf/p15a.pdf](http://www.irs.gov/pub/irs-pdf/p15a.pdf)

Misclassification of a worker may result in significant financial liabilities. The penalties for failing to make required employee related payments and withholdings can be as much as 100% of the tax not withheld or paid. If you are in doubt as to whether a worker is an employee or independent contractor, discuss the issue with your accountant. In addition, the IRS can make the distinction for you if you file Form SS-8, Determination of Worker Status for Purposes of Federal Employment Taxes and Income

Tax Withholding.

### **Understand Your Payroll Responsibilities**

When you hire employees, you have various responsibilities relating to employee payroll expenses. Therefore, you must be knowledgeable in the areas of federal and state income tax withholding requirements as well as Social Security/Medicare withholding. Furthermore, as an employer, you are responsible for paying your portion of Social Security and Medicare taxes, Federal Unemployment Taxes (FUTA) as well as State Unemployment Taxes (SUTA). Employers must also comply with quarterly reporting requirements as well as the requirements regarding the frequency of payroll tax deposits.

### **Federal and State Income Tax Withholding**

The employer typically withholds federal and state income taxes from each employee's wages. An employer must follow Federal and State guidelines regarding the amount which is to be withheld from each employee's pay. The IRS Publication 15 (Circular E), Employer's Tax Guide, discusses important information for employers and includes tables for calculating federal wage withholding and advance earned income credit payments as well as information concerning benefits and tips. Employers are responsible for complying with all rules set forth in this publication and withholding the full amount in income taxes from each employee's paycheck.

[www.irs.gov/publications/p15/index.html](http://www.irs.gov/publications/p15/index.html)

The Arkansas Department of Finance and Administration provides information regarding state income tax withholding requirements:

[www.state.ar.us/dfa/income\\_tax/documents/starting\\_a-new\\_business.pdf](http://www.state.ar.us/dfa/income_tax/documents/starting_a-new_business.pdf)

### **Social Security and Medicare**

In order to comply with the Federal Insurance Contributions Act (FICA), an employer must withhold the employee's portion of Social Security and Medicare taxes. The employee's tax rate for Social Security is 6.2% and is subject to wage base limits announced annually by the IRS. The employee's tax rate for Medicare is 1.45% and is not subject to wage base limits. The employer must also match the amount withheld from the employee's pay as there is an additional 6.2% required for Social Security and 1.45% required for Medicare. IRS Publication 15 (Circular E) contains information regarding Social Security and Medicare tax requirements.

[www.irs.gov/publications/p15/index.html](http://www.irs.gov/publications/p15/index.html)

Employers are required to file a W-2 form with the Social Security Administration for each employee and furnish a W-2 to each employee in order to report wages earned. For more information, review Instructions for W-2 and W-3 published by the IRS.

[www.irs.gov/pub/irs-pdf/iw2w3.pdf](http://www.irs.gov/pub/irs-pdf/iw2w3.pdf)

### **Federal and State Unemployment Insurance**

Employers must comply with the Federal Unemployment Tax Act (FUTA). According to FUTA, employers are responsible for paying taxes to compensate workers who have recently lost their jobs. FUTA taxes are to be paid by the employer and are not to be withheld from an employee's wages. FUTA is paid and deposited separately from withholding and FICA taxes.

Unemployment insurance must also be paid to the state of Arkansas. Employers must establish a State Unemployment Insurance Account (SUTA). The state unemployment insurance rate varies depending on the company's history. Information on state unemployment insurance can be found on the Arkansas Department of Workforce Services Web site at the following link:

[www.state.ar.us/esd/](http://www.state.ar.us/esd/)

As an employer, it is critical that you adhere to all requirements and deadlines regarding withholdings, payments, and reporting. Taxes should be withheld and paid on time. Failure to make deposits and payments on time will result in penalties and interest charges that increase your expenses. It is recommended that you utilize the professional guidance of an accountant for tax questions as well as to assure compliance with all tax-related matters. If you would like assistance with processing payroll, options include working with your accountant or payroll service. Alternatively, some accounting software programs have a payroll support subscription service.

### **Research and Comply with Applicable Employment Laws**

Various regulations and laws exist pertaining to employees. If you plan to hire individuals to work for you, some understanding of the rules that apply to your business is necessary. Federal laws, depending on your sales volume and number of employees, may supersede state laws. Consult with the state and federal Departments of Labor to learn more. If you are unsure of your obligations, an attorney's guidance can be useful in assisting you to meet legal requirements.

U.S. Department of Labor website provides in-depth articles online at [www.dol.gov](http://www.dol.gov). Information on state regulations can be found at the Arkansas Department of Labor website.

[www.state.ar.us/labor/](http://www.state.ar.us/labor/)

### **Understand Workers' Compensation Insurance**

Workers' compensation insurance is to be paid solely by the employer and should not be deducted from employee wages. Most employers with three or more employees are legally obligated to provide workers' compensation insurance coverage for their employees. There are exceptions to the three or more employee rule. Some industries require workers' compensation insurance with the first hire. Therefore, all employers, regardless of the number of employees, should contact the Arkansas Workers' Compensation Commission.

Workers' compensation insurance is purchased by the employer from an insurance provider. Employers must also comply with workplace posting requirements and must comply with procedural and documentation requirements in the event of an accident in the workplace.

For additional information, visit the Arkansas Workers' Compensation Commission:

[www.awcc.state.ar.us/](http://www.awcc.state.ar.us/)

### **Remember to Keep Adequate Employee Records**

Just as you should keep good records for all operational aspects of your business, it is important to practice good recordkeeping tactics with your employees. The Internal Revenue Service recommends employers keep employee records for at least four years. However, some records may be retained indefinitely. For detailed information concerning what records to keep, employment tax records, etc., visit the IRS website.

### **Consider Optional Employee Benefits**

Many business owners find it challenging to attract and retain qualified employees. Therefore, as an employer, you may need to consider offering employee benefits. While not required, offering optional benefits such as healthcare and/or retirement accounts may improve your ability to attract and retain employees. The cost to the employer of offering such benefits can vary. In some cases, an employer may offer options to employees at little or no cost to the employer where premiums or contributions are the responsibility of the employee. Employee participation in such benefits would be optional. In other cases, the employer may choose to share in some of the cost of premiums or contributions as an added benefit to the employee.

When deciding whether or not to offer optional benefits to employees, it is important to learn about the benefits offered by other employers in your industry to understand what is typical and competitive in the labor market. Contacting vendors (healthcare, retirement, etc.) to discuss options for small employers will allow you to make the best choice for your business and your budget.

# APPENDIX

## 1 - Identify Your Personal Objectives

When evaluating your business idea, one of the elements to consider is its ability to satisfy your wants and needs. If it cannot, you will most likely be unhappy with the business, and an unhappy owner usually makes a poor manager. Poor management is a leading cause of business failure.

Stating the risks you are willing to take for the potential rewards will help you decide whether the business is right for you. Take a few minutes to identify the financial and personal needs objectives that are important to you. Be honest with yourself!

Annual vacations are important to my family and me. We never miss them.	Yes___	No___
I like to leave my work at the office at the end of each day. I think about it only when I return the next morning.	Yes___	No___
I am willing, and able, to concentrate on the business to the exclusion of family and friends.	Yes___	No___
I am in good health and have no family members with health problems.	Yes___	No___
I am comfortable with uncertainty, even if it means not being guaranteed a regular paycheck.	Yes___	No___
I enjoy working with people, even disagreeable ones.	Yes___	No___
I want to be my own boss.	Yes___	No
I want to be the sole owner of my business.	Yes___	No___
I am willing to take a partner/investor into my business.	Yes___	No___
I must have a regular paycheck.	Yes___	No___
I want to work _____ hours per day, _____ days per week.		
I want to employ _____ people.		
I want to employ _____ members of my family or friends.		
I want to make \$_____ per year.		
I must earn at least \$_____ annually.		
I am willing to invest \$_____ to start my business.		
The skills I have and want to use in running my business:		

The jobs I want someone else to handle are:

## 2 - Identify Your Personal Skills and Experience

Your business idea may be a very viable one, but without good management skills to execute it, your chances for success are poor. This does not mean that you must possess all the necessary management skills yourself. But you must know your weak points, so that you can either acquire skills in those areas or hire someone who has them. Be aware though that an over-dependence on others may expose you and your business to significant risk. Your chances for success are usually much better if you have direct work experience in the type of business you plan to start. Past experience provides key contacts in the industry or community that can help as you establish your own operation. Past experience provides firsthand knowledge that cannot be learned from a book. It gives you credibility.

This Management Skills Checklist identifies some of the skills that business owners need in order to insure that they can adequately control their businesses. Evaluate how well-prepared you are to manage your business by checking the appropriate category under each skill. Use the spaces to list where and when you plan to get training, or the name of the person who will provide any skill that you do not have and will not obtain through training.

Skills	I Know How	I Need Training	Someone Else Will Do
Establish and maintain financial records			
Prepare operating budget			
Put together a loan proposal			
Compile financial statements			
Meet payroll and sales tax requirements			
Analyze financial performance			
Project and control cash flow			
Purchase and manage inventory and/or supplies			
Determine credit worthiness of customers			
Collect past-due accounts			
Price my product/service			
Promote my product/service/business			
Hire and train employees			
Monitoring employees			
Motivating employees			
Manage my time			
Delegate work to others			
Negotiate agreements/contracts with suppliers, customers, etc.			
Schedule production work, including labor, machinery, and material needs			
Install quality control methods and conduct follow-up measurement			
Meet basic legal requirements, including those related to employment, zoning, safety/health, waste disposal, etc.			
Identify and make changes necessary to maintain the business' success			



### 3 - Identify Your Personal Financial Resources

Your personal financial situation directly affects your ability to obtain a business loan and start a small business. Even if you have the greatest business idea in the world and the best business plan, you'll still need access to resources. It is unrealistic to assume that you will be able to borrow all of the money you need to start your venture. Virtually every lender – aside from family and friends – will require you to put in some money of your own, either in the form of cash or assets. In order to determine whether you have an adequate amount of money to put into the business, you need to summarize your personal financial resources. You should also consider your personal credit history.

Consider the following questions:

- What is your personal credit history? Do you have a good credit score? Do you have issues in your credit history such as slow pays or bankruptcies?
- How much cash do you have in savings that you can contribute towards starting your business? (This does not include borrowed funds such as a home equity loan or cash advance from credit cards.)
- What personal assets do you have that can be used as collateral for the loan such as equity in a home or in rental property or a CD or other investment? Include dollar amount.
- Do you have family or friends that might be willing to provide money to help you start your business? If so, how much do you think they would be willing to contribute? What would be expected in return (repayment of loan, ownership share in the business, nothing, etc.)
- ***How much money do you need from the business to live on?***

#### The Personal Financial Statement

You always need a personal financial statement when you are attempting to borrow money. The personal financial statement shows your personal assets and your personal liabilities. If you are married, you will be asked to complete the statement jointly. Other owners of your business will also be asked to complete a current personal financial statement. Lenders require that your information be recent, so prepare your statement as of the latest month for which you have information – but not more than two months old. A personal financial statement form has been included.

Once you have evaluated your personal financial resources, review *Can I Qualify for a Business Loan?* on page 17 of this booklet.

# 4 – Personal Financial Statement

## Personal Financial Statement

As of \_\_\_\_\_

Complete this form for: (1) each proprietor, or (2) each limited partner who owns 20% or more interest and each general partner, or (3) each stockholder owning 20% or more of voting stock and each corporate officer and director or (4) any other person or entity providing a guaranty on the loan.						
Name			Business Phone			
Residence Address			Residence Phone			
City		State	Zip Code			
Business Name of Applicant/Borrower						
<b>ASSETS</b>		(omit cents)	<b>LIABILITIES</b>		(omit cents)	
Cash on Hand & in Banks			Accounts Payable			
Savings Accounts			Notes Payable to Banks and Others (Describe in Section 2)			
IRA or Other Retirement Account			Installment Account (Auto)	Monthly Payment		
Accounts & Notes Receivable			Installment Account (Other)	Monthly Payment		
Life Insurance - Cash Value Only (Complete Section 8)			Loans on Life Insurance			
Stocks & Bonds (Describe in Section 3)			Mortgages on Real Estate (Describe in Section 4)			
Real Estate (Describe in Section 4)			Unpaid Taxes (describe in Section 6)			
Automobile(s) - Present Value			Other Liabilities (Describe in Section 7)			
Other Personal Property (Describe in Section 5)			Total Liabilities		0	
Other Assets (Describe in Section 5)			Net Worth			
Total		0	Total			
Section 1. Sources of Income			Contingent Liabilities			
Salary			As Endorser or Co-Maker			
Net Investment Income			Legal Claims and Judgements			
Real Estate Income			Provision for Federal Income Tax			
Other Income (Describe Below)*			Other Special Debt			
Description of Other Income in Section 1.						
*Alimony or child support payments need not be disclosed in "Other Income" unless it is desired to have such payments counted toward total income.						
Section 2. Notes Payable to Bank and Others						
Name and Address of Noteholder(s)		Original Balance	Current Balance	Payment Amount	Frequency (monthly, etc)	How Secured or Endorsed Type of Collateral
Section 3. Stocks and Bonds						
Number of Shares	Name of Securities	Cost	Market Value Quotation/Exchange	Date of Quotation/ Exchange	Total Value	
Section 4. Real Estate Owned.						
	Property A	Property B	Property C			
Type of Property						
Name & Address of Title Holder						
Date Purchased						
Original Cost						
Present Market Value						
Name & Address of Mortgage Holder						
Mortgage Balance						
Amount of Payment per Month/Year						
Status of Mortgage						
Section 5. Other Personal Property and other Assets.						

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<b>Section 6. Unpaid Taxes</b>
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<b>Section 7. Other Liabilities</b>
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<b>Section 8. Life Insurance Held. (Face amount, cash surrender value, insurance company and beneficiary)</b>
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I authorize SBA/Lender to make inquiries as necessary to verify the accuracy of the statements made and to determine my creditworthiness. I certify the above and the statements contained in the attachments are true and accurate as of the stated date(s). These statements are made for the purpose of either obtaining a loan or guaranteeing a loan. I understand FALSE statements may result in forfeiture of benefits and possible prosecution by the U.S. Attorney General (Reference 19 U.S.C. 1001).
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Signature:	Date:	Social Security Number:
Signature:	Date:	Social Security Number: