Starting a Business in PA

Part I: Starting the Business

Key Tasks

• Deciding on the form of business
• Deciding on a location and state
• Deciding on a name
• Stock (corporations)
• Filings
  - Articles of Inc.
  - S corp
  - EIN

Form of business

• Sole Proprietor
• Partnership
• S Corporation
• C Corporation

Sole Proprietor

• Easiest to set up
• Minimal legal restrictions
• Taxes are paid on individual return
• Least amount of bookkeeping
• Unlimited personal liability
• Limited ability to raise capital
• Terminated upon death of owner

Partnership

• Easy to set up
• Profits not directly taxed
• Unlimited personal liability
• Terminated upon death of one of the owners
S Corporation

- **Conditions**
  - 10 or fewer shareholders
  - Active investors (not passive)
- More difficult to set up
- Most bookkeeping
- Limited liability
  - "Piercing the corporate veil"
- Taxes flow through to individual returns
- Company lives after loss of shareholders

C Corporation

- More difficult to set up
- Most book-keeping
- Limited liability
  - "Piercing the corporate veil"
- Double taxation on profits and dividends
- Company lives on despite the loss of shareholders

Location

- Pick a state
  - Pick PA unless you WON'T do business here
- Obtain a Mailing address
  - Home Office
  - Legal Agent-Mailbox
  - Rent office space

Names

- Your name is a key asset
- Pick a good one!
- Sole Proprietor
  - Pick a name that includes your name;
    e.g., J. Walter Thompson Advertising
- Corporations
  - Check with the state to see if a name is taken
  - All business will be done in the company name

Shares of Stock

- Very complex issue
- Talk to a lawyer and accountant
- You must authorize a certain number of shares
- You can issue shares to stockholders as necessary

Filings

- Articles of Inc.
  - Name, shares, etc.
- Docketing Statement
- EIN application
  - Employer Identification Number
  - Required for a corporate bank account
- S Corp application
  - Must apply for S status at Federal and State
  - Definitely do it for Federal; state level optional
Part II: Maintaining a Corporation

Misc. Inc.
- Advertising
  - Must advertise the formation of a corporation in a legal journal and in a local newspaper
- Bank Account
  - Set up under corporation’s name once you have an EIN
- Corporate Seal
  - Used to identify documents that are property of the corp.

Corporate Records
- Articles of Inc.
- Proof of Advertisement
- Bylaws
- Minutes of Meetings
- Stock Certificates
- Transfer Ledger

Bylaws
- Offices
  - Where located
- Meetings, dates, voting, notice
  - Explains the running of the corporation
- Directors
  - Terms, vacancies, resignations, compensation
- Officers
  - Identifies the duties of President, V.P., Secretary and Treasurer

Minutes
- Records meetings of shareholders and directors
- Elections of officers and directors
- Legal and financial resolutions
  - E.g., hire a lawyer
  - E.g., open a bank account
- Stock options and sales
- Management issues

Shareholder Agreement
- Determines what happens to stock if someone dies, leaves company, fails to perform duties, etc.
- Start with boilerplate but talk to a lawyer
Part III: Setting up Shop

Vital Office Equipment
• 2nd telephone line
• Answer phone or service
• Laser Printer
• Scanner
  - e.g., Paperport
• Fax Machine
• PC
• Email and Web site

Optional Office Equipment
• Photocopy machine
• Postage machine
• Shrink wrap machine

Vital Professional Services
• A good accountant
• A good lawyer
• A good PR agent

Other Professional Services
• Disk duplication service
• Advertising company
• Technical writers
• Packaging company
• ISP/Web site
• Web designers

Money Matters
• Bank Account
• Credit cards
  - Merchant status
Part IV: Death and Taxes

Types of Taxes

- Federal
- State
- Sales
- Local

Federal and State Taxes

• S Corp
  - Once the books are prepared and a P/L derived, portions of the P/L are allocated based on shareholder percentages
  - Added (deducted) from personal taxes

• C Corp
  - Person is taxed as an individual
  - Corporation is taxed on profits and dividends, and so is the shareholder

Sales Tax

• In PA, tax is now NOT applicable to the sales of software services
• Still applies to the sales of hardware and software
• 6% is collected quarterly by vendor and sent to state

Local Taxes

• Check with local municipalities
• Certain restrictions may apply
• Usually small (except Phila.)

V. Resources

Guides
Books
Organizations
Books and Guides

• Guides
  - Pennsylvania Small Business Operations and Resource Guide

• Books
  - “Incorporate Your Business” by Dan Sitarz
  - “How to form your own corporation without a lawyer for under $75” by Ted Nichols
  - “The Complete Book of Legal Forms” by Lynne Ann Frasier

Organizations

• The Company Corporation
  - Will provide service of setting up a corporation

• Small Business Development Center
  - Advice

• Ben Franklin Technology Partnership Program
  - Source of money and advice

• Technology Council of Southeastern PA
  - Contacts and network

end....