Hilliard Lyons

1950 US Hwy 51 Bypass N
Suite B
Dyersburg, TN 38024
800-588-1740
http://dyersburg.hilliardfc.com

HILLIARD LYONS
J.J.B. HILLIARD, W.L. LYONS, LLC | MEMBER NYSE, FINRA & SIPC

Starting or Buying a Business

Starting or Buying a Business

So, you're thinking of going into business for yourself. You have several options available, and all involve some degree of risk. Do you want to create a start-up operation? Perhaps you are planning on buying an existing business. Or, you may be considering the purchase of a franchise operation. Each option involves some element of risk and reward. Whichever option you choose, however, owning your own business offers a chance at more freedom and greater financial rewards.

Start-ups

If you are planning on building your business from the ground up, you are taking a bigger risk than if you were buying an existing business or a franchise. Existing businesses and franchises have some operating history that you can use to gauge the likelihood of the success of the business. By comparison, with a start-up business, you naturally think that you will succeed, but there are fewer guarantees.

Most successful start-ups don't actually begin with a new, innovative product. Instead, they begin with a proven product or service (start-up owners often open competing businesses in areas in which they are familiar) and become innovative after the new venture has generated some level of profit and success.

Because your start-up has no previous track record (even if you have had success in your field), you will first need to raise enough financing to make a go of it. Banks or investors will want to see a plan of attack before they will approve a loan for your start-up. Therefore, your first step should be to create a strong business plan.

The business plan

A well-developed business plan serves several useful purposes. It helps to organize thoughts and ideas about how the business should be developed. It also creates a plan of attack that will help you stay focused. And, it will assist you in getting financing. There are several important elements to a well-prepared plan:

- Strong introduction: The cover page, executive summary (essentially an overview of the plan), and table of contents will be the first elements that potential financiers or investors will see. If these aren't strong, potential financiers may not take you seriously enough to get to the heart of your plan.

- Business description: Whether you are using the business plan to get financing or create a focus of how your business should be run, you need to present a clear vision of what your business will be. The description should include how you want your business to be positioned in your industry, what will make your business unique, the products or services that you will provide, and how you plan on pricing within the industry. Do you want to be the low-cost provider, or the high-end specialist?

- Market positioning: If you want to attract investors to your business, you need to convince them that a need in the marketplace exists for what you are proposing. This section needs to include details on the size of the potential market for your business, how your business can benefit through sales inside the market, and how you plan on succeeding against your competitors.

- Financial objectives: This is perhaps the most important part of your business plan. Here, you need to convince your potential backers or lenders that your business will make a sound investment. You'll want to show that you have evaluated the attendant risks and rewards of your proposed business. You'll also need to project cash needs and expected income, and present a cash flow statement.

- Other areas: A good business plan will also cover in some detail your marketing plan, a discussion of how you plan on developing products to bring to market (if the business is a manufacturing concern), and so on.

• Buying an existing business

- The obvious advantage to buying an existing business is that it has a proven track record of success. But that doesn't mean that there are no possible pitfalls that you should avoid.

- Perhaps the greatest problem in buying an existing business is that you might not acquire the expertise and services of the existing owners, who have often accumulated goodwill with their customers or clients. However, when a business is bought, it is not unusual for the previous owners to stay on for a period of time to assist with the transition and to make introductions to clients in an attempt to transfer some of that goodwill.

- Consult qualified professionals to properly evaluate the information that the owners of the existing business may provide you. Also, make sure that the reasons why the business is on the market are true. Is the owner really planning on retiring to Florida, or is he or she just trying to escape the crushing debt that the business has accumulated over the last few years?

- Also, keep in mind that you may be taking on a heavy load of debt in acquiring the business. A business that is marginally profitable may not be able to both pay off the debt service on the loan and pay you a living wage.

• Franchises

- When you buy a franchise, you also buy marketing support, business strategy, name recognition, and assistance with site location (if it's a retail operation), among other things.

- However, you also give up some things. You will never have the final say in all decisions, because franchisors typically retain rights to ensure that your business is run their way. Also, you won't be entitled to all of the profits of your business, because franchisors typically take a percentage as part of their fees. Finally, you may be limited in your decision-making processes (e.g., some franchisors require you to buy materials from their suppliers).

- If you are thinking of purchasing a franchise, it is very important to thoroughly investigate the company. Remember, you are doing more than just purchasing a name--the franchisor is going to be your business partner. Make sure that he or she doesn't want only your money and then move on to the next potential buyer.

- Franchisors are required to disclose lots of information to potential franchisees. Do your homework. Talk not only to successful franchisees but also to ones who have failed. If several former franchisees tell you that the company didn't fulfill the promises of the franchise agreement, beware.

- Make sure every representation is made to you in writing before you purchase. Take notes of everything said to you, and have the franchisor sign off on them. That way, you will have a record of what was represented to you if things go wrong.

• Business start-up costs and organizational expenses

- Generally, costs that you incur prior to the time that you actually begin operating a business are treated as capital expenditures, which are part of your basis in the business. However, certain start-up expenditures may be deducted, either in the first year of business or over time (amortized).

- Such start-up costs must be incurred before the business begins operation and be ones that otherwise would be deductible as a normal business expense. Certain syndication costs of marketing or selling interests in a new business cannot be deducted, and must be capitalized.

- You may elect to deduct your business start-up costs. If you make the election, you may deduct up to $5,000 of start-up costs in the taxable year in which you actively start the business. The $5,000 amount is reduced (but not below zero) to the extent that start-up costs for the business exceed $50,000. Thus, no first-year deduction is available if start-up costs exceed $55,000. The remainder of the start-up costs are amortized over a period of 180 months. If you do not elect to deduct your start-up costs, you must capitalize them.

- You deduct amortized start-up costs in equal amounts over a period of 180 months. You take the total start-up costs, reduced by the amount you deduct in the year you start the business, and divide that amount by the 180 months in the amortization period. This figure is the amount deductible each month. If the business is terminated before the end of the 180-month amortization period, you may be able to deduct as a business loss any remaining start-up costs that have not been previously deducted.

- For example, say you incur $52,000 of costs starting up your business before it begins operation and elect to deduct start-up costs. In the year your business actively starts, you can deduct $3,000 of start-up costs [$5,000 - ($52,000 - $50,000)]. You can also deduct the remaining $49,000 ratably over 180 months, or $272.22 a month for 180 months; your deduction for a year with 12 months of amortization would be $3,266.67.

- Note:You are deemed to have elected to deduct eligible start-up expenses unless you affirmatively elect to capitalize the expenses on a timely filed federal income tax return.

- Similarly, you may also elect to deduct up to $5,000 of organizational expenditures for a corporation or a partnership in the taxable year the entity begins business. The $5,000 amount is reduced to the extent that organizational expenditures exceed $50,000 (so no deduction is permitted if organizational expenditures equal or exceed $55,000). The remainder of the organizational expenditures are amortized over 180 months. If you do not elect to deduct your organizational expenditures, you must capitalize them.

- For more information, see IRS Publications 535 and 583.

• Tax breaks for small businesses

- Other potential tax breaks include:

- Individuals are generally able to exclude 100% of any capital gain from the sale or exchange of qualified small business stock acquired at original issue, provided that certain requirements, including a five-year holding period, are met. The exclusion applies for purposes of the alternative minimum tax calculation as well as for the regular income tax calculation.

- Small businesses can write-off a portion of the cost of new equipment in the year it was purchased and put into use rather than depreciating the cost over time. This provides an immediate tax benefit. The limit is $500,000, with a phase-out that starts when purchases for the year exceed $2,000,000. Beginning in 2016, the dollar limit and phaseout threshold are indexed for inflation. (In 2017, the amounts are $510,000 and $2,030,000, respectively.)

- A business's unused general business credit can be carried back to offset taxes paid the previous year and carried forward 20 years to offset future taxes.

- If you offer employees health coverage through the federal Small Business Health Options Program (or "SHOP"), have fewer than 25 employees, pay at least 50% of your full-time employees' coverage, and have an average employee salary of less than $50,000 (indexed for inflation beginning in 2014; for tax-year 2016, the amount is $52,000), you may qualify for a tax credit worth up to 50% of your premium costs (35% for tax-exempt employers).

- If you are a self-employed individual, you may be able to deduct the amount you paid for health insurance for yourself, your spouse, your dependents, and children under age 27 (even if they were not dependents). However, the deduction isn't available for any month in which you or any of those individuals are eligible to participate in a health plan subsidized by an employer.

Securities and Advisory Services offered by J. J. B. Hilliard, W.L. Lyons, LLC, A Registered Broker Dealer and Investment Advisor, Member NYSE/FINRA/SIPC. Trust Services are offered through Hilliard Lyons Trust Company, LLC, an affiliate of J. J. B. Hilliard, W.L. Lyons, LLC. Hilliard Lyons does not offer legal, accounting or tax advice. You should consult your own tax or legal counsel prior to making any decision that may affect your tax or legal situation. To understand how Hilliard Lyons is compensated for its services, please click here.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable-we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Third Party Web Sites – We may link to or provide access to other web sites or services from other companies or organizations. You agree that we are not responsible for, and do not control those web sites or services.

Hilliard Lyons

1950 US Hwy 51 Bypass N
Suite B
Dyersburg, TN 38024
800-588-1740
http://dyersburg.hilliardfc.com