Structuring Your Business for Success

Congratulations! Starting a business can be one of the most exciting (and terrifying) adventures you’ll ever take. Google “how to start a business” and you’ll be hit with information overload – articles telling you everything from what steps to take to what not to do. And while setting up the actual legal structure of your business can be simple, there is much more that should go into it than just filing your paperwork and grabbing an Employee Identification Number (EIN.) Taking time on the front end to think through what you hope your business will become, how it will grow, and what your exit plans looks like can help ensure that the business you establish today helps you meet those goals.

**1. Choose the legal structure that fits best with your business.**

There are four main ways that a business can choose to be structured:

1. Sole Proprietorship
2. Partnership
3. Corporation
4. Limited Liability Company.

While the terms get used interchangeably, they each are very distinct legal entities. Before you can file the paperwork to establish yourself as a company, you need to determine which form your business will take.

* Sole Proprietor. This is the most basic business form when you, as an individual, sell your goods or services without any formal legal structure. Any money you earn goes directly into your bank account (although you could have a separate one if you chose) and your income (and expenses) are accounted for on your personal income taxes. While Sole Proprietorships are very simple to get started, one of the biggest downsides is that you (and your personal assets) are responsible for any of your businesses debts and liabilities. Most side hustles (and many other businesses) get started this way because it can be as easy as grabbing a business license and selling your products.
* Partnership. When two or more individuals come together to conduct business together, they form a partnership. Within the partnership, they pool their resources and share in the income and expenses. Generally, each partner is liable for the businesses debts and liabilities, which can put the individual’s assets as risk. Like a sole proprietorship, partners account for income (and expenses) on their personal income taxes. Partnerships are often seen with professional services (accounting firms, law firms, architects), where the individuals exchange time for money but could benefit from shared resources, like an office, administrative staff, etc.
* Corporation. Corporations are the most formal and traditional legal structure. The corporation is owned by one or more shareholders (who own stock) and is governed by a board of directors. When operated properly, the shareholders are not responsible for the corporation’s debts or liabilities, which protects the shareholders personal assets. The corporation pays its own taxes and then shareholders are responsible for paying taxes on any individual dividends or distributions they receive.
* Limited Liability Company. Today, the limited liability company (“LLC”) is the entity of choice for most small businesses. LLCs combine the liability protections of a corporation with the taxing benefits of sole proprietorship / partnership. LLC’s are easy to establish and don’t require the corporate formalities that come with a Corporation. LLC’s can have one member (a single member LLC) or many (multi member LLC).

For most service based businesses, like yours, an LLC is a good option. You can set up the LLC as soon as you decide you want to start your business (and if you working in client’s homes and taking possession of their wardrobe for any period of time, it is a good idea to set up the LLC from the beginning). It is easy to set up and maintain, is flexible and provides you with liability protection. And, in most states the process is fairly easy and inexpensive.

*A note about S-Corps.* Before 2018, it was common for many LLC’s to choose to be taxed as an S-Corp (a tax designation originally designed to give small, closely held corporations the flexibility to be taxed more like a partnership) because many business owners believed filing as an S-Corp would save them money on taxed. With the 2018 tax reform, however, there is less incentive to be taxed as an S-Corp. Before making that decision, talk with an accountant to see what makes sense for your business.

**2. Setting up your business.**

Now that you know how you want to be structured, you need to actually set up your business. While the steps vary by state and locality, they are essentially the same:

* *Register your LLC with the State agency that oversees businesses*. For most states that is either the Secretary of State or State Corporation Commission. You will file Article of Organization (and for most, you can do this online) and pay the filing fee.
* *Obtain your Employer Identification Number from the IRS* (you can [access the site here](https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online)). Even if you do not intend to have employees, this is the “social security number” for your business. You will need it for everything you do going forward.
* *Set up your bank account*. Your bank will want to see your Articles of Organization, your EIN and, if there is more than one of you in the business, proof that you are authorized to open the bank account. This authorization is usually spelled out in the Operating Agreement (an agreement between the owners of a business that details how the business will run).
* *Check with your local government offices to see whether your locality requires a business license or any special permissions to operate*.
* *Confirm whether your services are subject to any additional taxes*. The general rule is that services are not taxed but selling goods (of any kind) are. If you sell products along with your design services, you may need to charge sales tax.

Once your business is established, it is important to treat it like a business – use your business banking account for business expenses only, purchase all business assets in the name of the business, and properly document (and pay taxes on) any money you take out for yourself. Good accounting software can help you document everything.

**3. Set Client Expectations**.

The best way to make sure that your clients have an amazing experience is to set their expectations from the beginning of your engagement. What will you offer them? How much will it cost? What if they are not happy with your services? Clear expectations and communications will help you avoid disputes with your clients. And while you cannot guarantee,

* *Scope*: What will you be doing for your client? Will you be helping her clean out her closet and repurpose her wardrobe? Will you be shopping for your client? Selling their merchandise? The most important clause of your agreement will be your “Scope” as it spells out exactly what your client can expect by working with you.
* *Fees & Payment Terms*: Now that you are clear on the scope of your engagement, you need to clearly state your fees and how you expect to be paid. If you make purchases on behalf of your client, you need to state when you will be reimbursed (and who will be liable for merchandise that needs to be returned!).
* *Termination Clause*: What would cause you to need to terminate your contract? A client not paying you? A client being overly difficult? If you want to be able to terminate your contract, you need to state how that happens and under what circumstances.

**4.** **Assemble Your External Advisory Team.**

You know what you want to sell, and you may even have an idea of how you will sell it. Better yet, you’re an expert stylist (or soon to be one.) As you get ready to launch your business into the world, now is the time to assemble your external advisory team to help guide you through the areas of business ownership that are foreign to you. Your external advisory team should include the following:

* Accountant / Bookkeeper. An accountant is an individual or company that helps you and your business with your finances and prepares your taxes. Sometimes your accountant will also help set up and maintain your books. Your accountant can help you determine any taxes the business will be responsible for paying (i.e. sales tax, business taxes, etc.) and answer any tax related questions you will have.
* Business Attorney. A business attorney is an attorney who focuses their practice on business law and can help you determine your corporate structure, set up your owner agreements, prepare the agreements you have with your clients, and provide guidance for other areas you may need assistance (i.e. intellectual property, real estate, etc.).
* Banker. Your banker is an individual who works for the bank where you keep your business accounts. Your banker will help you establish the best accounts for your business and help you access other types of capital (i.e. line of credit, SBA loan, etc.)
* Marketer. A marketer is an individual or company that helps you identify who your target audience is and then develops a strategy to help you reach that audience. Your marketer may also help you execute that strategy (i.e. sponsorships, advertising, etc.)
* Insurance. Depending on the services you offer, you may want to look into have general liability insurance, which would cover you should anything happen to the clothing / accessories in your possession or while you are onsite at your client’s home. A good agent will be able to guide you as to whether you need coverage (not everyone does) and the type of coverage you should get.

Each of these individuals is a subject matter expert. By leveraging their expertise, you can ensure that your business has a strong foundation from which to launch.

**5. Launch Your Business**

Now that you have the basic structure and setup in place, it is time for you to launch your business! Good luck!

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