

NEW BUSINESS KIT FOR LASSEN COUNTY, CALIFORNIA

PRESENTED BY: HAWS, THEOBALD & AUMAN
Certified Public Accountants
(530) 257-1040
www.mycpas.biz

Let us help you plan for tomorrow!

Call today for your
Free 30 minute CPA consultation!

257-1040

Congratulations on your new business! Starting a new business off on the right foot is extremely important. To help you comply with regulatory requirements we have collected information from several agencies you will need to register with to get your new business started in Lassen County, California. This handbook is not all-inclusive, however, it will help you get started.

We are excited to see new businesses in Lassen County and we hope yours will grow as ours has. If you need assistance in preparing any of these forms, please call (530) 257-1040. Your goal is to succeed; our goal is to help you attain that success!

Haws, Theobald & Auman
Certified Public Accountants

Questions you will I need to answer, & Decisions you will I need to make:

Which business entity will I be?
(Proprietor, Partnership, etc.)

Will I need an employer identification
number (EIN)?

Do I have to start my tax year in January?
Or may I start it in any other month?

What method can I use to account for my
income and expenses?

What kinds of taxes will I have
to pay? How should I pay my taxes?

What must I do if I have employees?

What forms must I file?

Are there penalties if I do not pay my taxes
or file my returns?

What business expenses can I deduct
on my income tax returns?

What records must I keep? How long must
I keep them?

In addition to knowing about federal taxes, you need to make some basic business decisions.

Ask yourself:

- ◆ What are my financial resources?
- ◆ What products and services will I sell?
- ◆ How will I market my products and services?
- ◆ How will I develop a strategic business plan?
- ◆ How will I manage my business on a day-to-day basis?
- ◆ How will I recruit employees?

NEW BUSINESS CHECKLIST

YES or N/A

Discussed legal documents of partnership or corporation with attorney

Discussed business accounting system and related tax matters with Certified Public Accountant (Us)

Obtained Business License at City Hall

Obtained Fictitious Business Name Statement from Lassen County Clerk

Published Fictitious Business Name with Newspaper of Record

Applied for Federal Employer Identification Number (Form SS-4)

Applied for State Employment Development Number (Form DE-1)

Registered with State Board of Equalization

Joined HUSA (If Applicable)

Obtained Worker's Compensation Insurance

Discussed other insurance needs with agent

Opened business bank account

Internal Revenue Service

All tax forms filed with the Internal Revenue Service require the use of a **Federal Employer Identification Number** (FEIN). This number is obtained by filing a Form SS-4 with the Internal Revenue Service. This form is required of all new business corporations, partnerships, and sole-proprietorships with employees.

This form may be obtained at the Social Security Office, or at our office, 1740 Main Street, Susanville.

A Federal I.D. Number may be obtained over the phone by faxing (801) 620-7115 the completed Form SS-4 to the Internal Revenue Service Center.

Employment Development Department

If the new business has employees, Form DE-1 must be filed with the Employment Development Department (EDD). This form must be filed within 15 days of the date your accumulated wages for a calendar quarter exceed \$100.

This form may be obtained by calling the Employment Development Department, in Sacramento (916) 654-7091, or you may pick one up at our office at 1740 Main Street, Susanville, California.

State Board of Equalization

Every retail/wholesale business started in California must register with the State Board of Equalization. If you are a corporation you must bring a copy of your Articles of Incorporation. There is no fee for registering with the Board; however, a deposit or bond based on anticipated taxable sales may be required.

Business License

To operate a business within the city limits of Susanville, you must obtain a business license. The application may be obtained at City Hall, 66 N. Lassen Street, 257-1015. At the time of application a deposit will be required based on your estimated sales. Subsequent fees may be 1/10th of 1% of your gross retail sales. The license is issued immediately and must be posted in plain sight at your place of Business. The license, with the related fee, must be renewed quarterly.

Historic Uptown Susanville Association (HUSA)

If your business is located in the Historic Uptown Susanville Association District, you are **REQUIRED** to belong to HUSA. Annual fees billed quarterly range from \$100 to \$350 per year. HUSA is located at 30 S. Gay Street, 257-6506.

Fictitious Business Name

If your business uses any name other than your own, you are required to file a fictitious Business name with the County Clerk. The clerk's office is located in the Courthouse at 220 S. Lassen Street #5, 251-8217. There is a fee to the county, (\$20 in 2002; check with agency for current amount) and the statement must be filed in a local newspaper of record.

Insurance

Very little insurance coverage is legally required; however, good business practice requires adequate insurance coverage. The only insurance coverage typically required by law is Worker's Compensation, which covers injuries to employees while on the job. Your insurance agent can explain the required coverage, the rating systems, and help you purchase a policy.

Payroll Taxes

Irrespective of the form of business in which you operate, if you are going to have employees, you will have to contend with payroll taxes. The brief summary that follows will give you some guidance on the rules and regulations of the various taxing authorities. For additional help on payroll preparation, please call us at (530) 257-1040.

Summary of Payroll Tax Deposit Requirements

Federal Withholding and FICA Taxes

The Internal Revenue Service will determine each November which deposit rule you fall under (monthly or semi-weekly). The following are examples:

1) Monthly

If at the end of the calendar quarter your total undeposited taxes are less than \$1,000; you may pay the taxes when you file Form 941, Employers Quarterly Federal Tax Return.

You are a monthly schedule depositor for a calendar year if the total taxes on Form 941 (line 11) for the four quarters in your look back period were \$50,000 or less. Under the monthly deposit schedule, deposit Form 941 taxes on wages paid during a month are due by the 15th day of the following month.

CAUTION: Monthly schedule depositors should **not** file Form 941 on a monthly basis. Do not file **Form 941-M**, Employer's Monthly Federal Tax Return, unless you are instructed to do so by an IRS representative.

2) Semi-Weekly

You are a semi-weekly schedule depositor for a calendar year if the total taxes on Form 941 (line 11) during your look back period were more than \$50,000. Under the semi-weekly deposit schedule, deposit Form 941 taxes on wages are due 3 days after the date of the payroll.

Federal Unemployment Taxes

To determine your quarterly liability for FUTA, multiply by .008 that part of the first \$7,000 of each employee's annual wages that you paid during the quarter. If the resultant liability for the quarter is \$100 or less, there is no liability for the following quarter.

Federal Unemployment Taxes, cont'd.

If your liability for any calendar quarter (plus and undeposited taxes for an earlier quarter) is more than \$100, you are required to deposit the taxes with a federal tax deposit coupon, at an authorized financial institution by the end of the following month.

If the tax reported on your Federal Unemployment Tax Return, Form 940, less deposits for the year:

Is more than \$100, you must deposit all of the tax by January 31, or,

Is less than \$100, you may pay the taxes when you file form 940.

California Withheld Income Taxes and Disability Insurance Contributions

If at the end of any monthly period you are required to make a deposit of federal withheld income and FICA taxes, you must file a Form DE-88 and remit to the EDD all California personal income tax withheld and disability insurance contributions by the 15th of the following month.

Remember: As of January 1st 2001, the SDI rate is 0.9%

You must file a Form DE-88, Monthly Return Disability Insurance Contributions and Personal Income Tax Withheld when you meet the following requirements:

1) Semi-Weekly

You will be required to make semi-weekly deposits of SDI and California PIT deposits if you are required to make federal semi-weekly deposits AND you accumulate more than \$400 in California PIT during one or more payroll periods. Semi-weekly depositors will always have three banking days after the end of the semi-weekly period to make deposits. If any of the three weekdays after the end of a semi-weekly period is a banking holiday, you will have one additional banking day to deposit.

2) Monthly

You will be required to make monthly deposits of SDI and California PIT if:

- ◆ You are required to make Federal Quarterly deposits, AND you accumulate \$400 in California PIT during one or more months of a quarter;

OR

- ◆ You are only required to make Federal Quarterly deposits, BUT you accumulate \$350 or more in California PIT during one or more months of a quarter.

The monthly deposit schedule requires deposits to be made by the 15th of the following month.

If the above conditions are not met, you may pay the taxes when you file the quarterly Contribution Return, Form DE-3.

California Unemployment Insurance and Employment Training Tax Contributions

Computation and payment of California unemployment insurance and employment training tax is made when you file your Quarterly Contribution Return, Form DE-88.

The Employment Development Department notifies each employer of their employment insurance rate, which is based in part upon claims submitted by prior employees. The employer's rate is applied to a taxable wage base of \$7,000 for each employee.

Supplemental Wages

If supplemental wages – such as bonuses, commissions, and overtime pay – are included in the same payment with regular wages, tax to be withheld is determined as if the total of the supplemental and regular wages were a single payment for the regular payroll period. If supplemental wages are not paid on the same payment as the regular wages, the employer may:

- Withhold at a flat rate of 28% for Federal and 6% for California, or,
- Combine the supplemental wage with the last regular wage, determine the tax on the total wage and subtract the amount already withheld on the regular wage payment.

For no additional cost services, qualified employee discounts, or employee eating facilities, any officer, owner or highly compensated individual can take advantage of the exclusion of the benefits that are available to employees on the basis that it does not discriminate in favor of such officers, owners or highly compensated individuals.

Other Tax Requirements (Forms W-4 and W-2)

Whenever a wage payment is made, the employer must provide the employee with a statement of the gross wage and specific deductions (if any). Use the W-4 form submitted by the employee and the tax tables provided in the employer's tax guides to determine the correct income tax to withhold. If the employee fails to submit a W-4 form, the employer must withhold at the rate applicable to a single person who has no withholding exemptions. A continuing requirement exists for employers to submit, with their quarterly payroll tax returns, a copy of any W-4 form on which an employee is claiming exempt or more than 10 withholding exemptions.

The employer must also furnish a Form W-2 to each employee showing remuneration and withheld taxes for each calendar year. Flat rate expense account allowance, disability insurance paid by the employer, and moving expense compensation is reported on a W-2 form. Upon request, a W-2 form must be furnished to a terminated employee within 30 days after the request or the final wage payment which ever is later. All other W-2 forms must be given to the employees by January 31, of the following year.

The payroll tax requirements and the work related to compliance are quite cumbersome and complicated. Once a business employs someone, we recommend that a qualified payroll service be used because it has generally been our experience that the cost of the service is far outweighed by the personnel and management time required to operate the payroll system in house.

Compliance with Immigration Law

The Immigration Reform and Control Act of 1986 became law on November 6, 1986. The act requires all employers in the United States to verify the identity and work authorization of all persons hired after November 6, 1986, by preparing a Federal Form I-9. This verification requirement applies to U.S. citizens as well as to foreign citizens and must be satisfied even if the employer personally knows the new employee. If you have any questions regarding the application of this law to your business, call the Employment Development Department, 257-2127, or our office, 257-1040.

Available Federal and State Websites:

Federal:

www.irs.ustreas.gov

California EDD Home Page

www.edd.cahwnet.gov

Selecting Professional Advisors

Starting your own business obviously entails a multitude of decisions; decisions which can seem overwhelming without the right players on your team. In order to succeed you need to equip yourself with every tool at your disposal.

One of the most cost effective tools you can utilize is the expertise of a specialist. The right accountant, banker and attorney can eliminate a host of problems and potentially costly errors you might make as you build the financial foundation of your successful business.

As any coach can tell you, having a first rate quarterback won't guarantee a winning team without a first rate line of defense. The right accountant, banker, and attorney are your best defense. Their expertise can help save you money, which in turn can be used to increase profits.

When enlisting the expertise of an accountant, banker, and attorney you want a specialist suited to meet your specific needs. You want specialists who will listen to you. More importantly, you need someone you can and will listen to as they devise strategies to help you succeed.

You want to succeed – and you can. By taking the time to make key decisions and enlisting the right players on your team – you will succeed!

Accounting and Bookkeeping

Most operators of a new and growing business have a flair for the environment in which the business operates. They may be a great salesperson, an outstanding mechanic, carpenter, lawyer, or inventor. Unfortunately, most people don't like to keep the books. As an owner of a business you must remember that your company's books and financial statements represent a score sheet which tells how you are progressing, as well as an early warning system which lets you know when and why the business may be going amiss. Financial statements and the underlying records will provide the basis for many decisions made by outsiders such as banks, landlords, potential investors and trade creditors as well as taxing authorities and other governing bodies. The necessity for good, well-organized financial records cannot be over emphasized. One of the greatest mistakes made by owners of small businesses is not keeping good financial records and making improper or poor business decisions based on inadequate information.

Quality financial information does not necessarily translate into complicated bookkeeping or accounting systems. Far too often owners of businesses become overwhelmed by their accounting system to the point where it is of no use to them. An accounting or bookkeeping system is like any tool used in your business; it needs to be sophisticated enough to provide the information you need to run your business and simple enough for you to run it (or supervise a bookkeeper). Questions you should ask in developing an accounting and financial reporting system are:

1. Who will be the users of the financial information?
2. What questions do I need answered to manage the business?
3. What questions should be answered for government or regulatory taxing authorities?

As your business grows, you should work closely with your accountant to ensure that your accounting system is providing you with appropriate information. We can even help you set up your chart of accounts.

Haws, Theobald, and Auman offers many ways to help you with your bookkeeping:

- ❖ Manual journals
- ❖ QuickBooks®
- ❖ Quicken®
- ❖ On-line transactions
- ❖ Bill Paying
- ❖ Payroll
- ❖ Full and Partial Bookkeeping Services
- ❖ QuickBooks® Telephone Consultants

We can easily merge your bookkeeping with your Quarterly or Year-end taxes.

Accounting Records and Record keeping

Another question, which the owner of a business must answer, is – who will keep the books of the business? Will you do it yourself, will the receptionist or a secretary double as a part-time bookkeeper, will you have a bookkeeper that comes in periodically, or will the volume of activity be such that a full-time bookkeeper will be required?

Very often the owners of a business decide to keep the books themselves and underestimate the commitment they have made to other phases of the operation and the time required to maintain a good set of financial records and books of account. As a consequence, the record keeping is often low priority and must be caught up later. This approach, though rarely planned, can require a substantial expenditure of time and money. While it is important for the owners of a business to maintain control and stay involved in the financial operations of the enterprise, maintaining close control over the check signing function and scrutinizing certain records can achieve this. Your company's accountant can help develop a good program of record keeping duties for you, your employees and any outside bookkeepers or accountants you may engage.

Sometimes the cost of the service may seem high at first, but when you take into consideration the man hours involved in doing the work yourself or hiring a bookkeeper you may find you want to out-source this work.

Records Retention

Having your payroll done by a payroll company also means that if, for any reason, you are audited by Worker Compensation or some other entity, the audit is done at your bookkeepers' office and answer any questions the auditor needs answered.

Computers and Software

The computer is probably the single most valuable invention for bookkeeping and accounting since the advent of double entry bookkeeping. If your business includes any of the following, then a computer would be a useful tool in your business:

1. Many repetitious or routine tasks.
2. Lots of paperwork; i.e., payroll checks invoices, purchase orders, mailing labels.
3. Lots of general correspondence.
4. Written reports, contracts, newsletters, catalogues or brochures.

Your accountant knows both your business and computers so he can take much of the confusion out of the selection process by assisting you in the purchase and installation of your computer.

Many software programs can make these tasks even easier. Quicken®, QuickBooks®, and Excel® are just a few. Some of these programs can be sent to us on-line reducing your time out of the office and away from your customers.

None of these programs will solve the problems of inaccurate or poor quality financial records. All they will do is generate bad information faster. It is imperative that you

Computers and Software, cont'd.

generate accurate information to be entered into the systems. A computer can create almost as many headaches as it solves, if the information is input incorrectly, or not at all.

The real value of your computer becomes apparent once it is running smoothly in your business. Your accountant can then function in the capacity for which he was trained not as a “number cruncher”, but as your business advisor, consultant and strategist. Both of you can focus not on producing reports for various regulatory agencies but on analyzing your business to make it more profitable.

We can help you with your computer hardware, software and technical support issues. Our team consists of several individuals well versed in the computer field.

Tax Planning

Proper tax planning is essential in order to make the most of the income tax laws. Tax planning is not a one-time shot right before the return is due. Tax planning is a year-round endeavor requiring communication on both sides – you and your CPA. Proper planning ensures that there are no surprises when the return is filed.

Income tax laws are quite complicated. The amount you may save by attempting to tackle your own taxes, particularly as they relate to a business, can be greatly overshadowed by the expense you may incur if you make a mistake. This axiom takes on greater significance when the return is for a corporation – especially the first return. However, a far greater consideration than potential mistakes is missing opportunities, which may be available to you and your business.

Obtaining credit and financing for your business

Unless independently wealthy and perhaps even if you are, eventually you will probably need to obtain some outside capital for your business. In some instances, you may need to obtain capital for the initial expenses prior to opening your business or for instance, the funds you require may be for expansion or working capital during the off season.

Generally business financing can take two forms, debt or equity. Debt, of course, means borrowing money. The loans may come from family, friends, banks, other financial institutions or professional investors. Equity relates to selling an ownership interest in your business. Such a sale can take many forms such as the admitting of a partner or, if you are in a corporation, issuing of additional common stock, options or warrants to investors. It is typically a prudent idea to consult with your attorney, as there are many significant legal ramifications to such a step.

Good up-to-date financial records will be imperative to your success in borrowing money.

Insurance

Business insurance, like many types of expenditures is one of those items that business owners typically do not like to pay. You must remember that sufficient insurance can be as critical to the success of your business as a good product or service. Without proper insurance you could lose all of the money, time and effort you put into your company. The types and amounts of coverage you purchase must be evaluated on a cost-benefit basis like any other commodity you purchase.

Your accountant and insurance agent can help you review the amount of coverage you may wish to purchase for various purposes. Usually, you will want to insure against risks that could have significant detrimental impact on your business. This normally would include such items as fire, storm damage, theft, and general and product liability. Depending on the nature and size of your business it is often a good idea to self-insure for all or a portion of certain losses. Self-insurance can be accomplished by not buying coverage for incidental risks or increasing the deductions on policies, which you do buy. Often raising the deductible can have a very favorable impact on policy premiums. The administrative cost to the insurance company to process small claims is quite high, consequently the rates typically go down substantially if they are relieved of this expense by insuring for losses in excess of a sizable deductible amount. An insurance broker can provide you with comparative costs for various types of coverages with varying degrees of deductible amounts.

In Closing:

The team of Haws, Theobald and Auman wishes you success and welcomes you to the wonderful world of free enterprise. Remember, we are only a phone call away should you have questions or want experienced, practical advice. We also offer a free 30-minute consultation to all new businesses – so call for yours today! 257-1040