

Guide to setting up your new business.

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Before you start.... Entity decision:

Entity is the type of business you are creating. There are three basic types.

1. **The sole proprietor.** This is just you with a business name. Everything is connected to you personally. You will pay taxes on the net income on your personal tax return with an added self-employment tax on the business income. If you want to stay here without an LLC, then you do not have any more steps to take. You may want to get an EIN to use rather than your social security number.
2. **The partnership.** Exactly as it sounds. Two or more people going into business together. The business has a separate identification number and generates its own tax return. But the partnership does not pay taxes. The partnership return calculates the net profit or loss and then divides that number between the partners. Each partner will have to declare their part of the profit or loss on their individual tax returns. The profits are taxed as if the partner is self-employed. This is a complex entity in which the value of a partner's percentage needs to be established up front and tracked as the business grows.
3. **The corporation** (often seen as an Inc.). Corporations are completely separate from the person or persons that form them. Corporations can be owned by one or more people through the ownership of stock. The corporation is taxed separately at its own corporate tax rate. This can be good for an owner or owners that have high personal tax rates. Deciding based on the tax implications will be tied to whatever the current tax rates are. Keep in mind that tax rates can change at the whim of the federal state and local governments at any time. See a tax advisor to check the current rates. This also is a complex entity in which the value of a shareholders stock (investment) needs to be established up front and tracked as the business grows.

But what about an LLC (limited Liability Company)? This is a state entity that helps a business separate its liability (think being sued) from the liability of the owner or owners. An LLC only protects your business if it remains inside the state in which it is established. That is the "limited" part. You can form an LLC as a single owner (sole-proprietor) or a Partnership. A corporation or "C-Corp" is already separated from the shareholders. Becoming an LLC is a good move for a single owner or a partnership.

Finally, the "S-Corp" or small corporation. This is actually a federal and state **tax status** not an entity. Any of the three entities can opt to be an S-Corp for tax purposes. This status creates a "pass-through" similar to the partnership but the profits do not generate self-employment tax. That is the big benefit. S-Corp status can save thousands of dollars in self employment tax.

Now that you have made your decision:

Steps you will need to take.

(The following is specific to the state of Georgia. Different states have different regulations. Please check your state regulations for guidance.)

Register your business

Secretary of State Corporation Division

<https://ecorp.sos.ga.gov/>

Your entity at this point can only be one of the following:

LLC – Single owner (Sole Proprietor)

Partnership

LLC – Partnership

Corporation (Inc.)

- a. You will need your business name and an alternate in case it is taken
- b. You need your business address
- c. You are the registered agent (or you can hire one to do this step)
- d. You are the organizer (single owners)
 - i. If you are creating a partnership, all partners are added as organizers
 - ii. Likewise, a corporation's shareholders should all be organizers
- e. If asked about officers (C-Corp), You are all the officers unless you have other shareholders. In this case the officer positions can be filled by shareholders.

Get your EIN

(Employer Identification Number)

<https://www.irs.gov/businesses/small-businesses-self-employed/apply-for-an-employer-identification-number-ein-online>

This is basically the social security number for the business. You will need this to file returns for taxes and payroll. This number is also used for opening business bank and credit card accounts.

This is a very simple process.

If you want to be an S-Corp.

As stated earlier this is a tax status election through the IRS. This status creates a pass-through entity that has some tax advantages over simple partnerships and sole proprietors.

To file for this election one must file Form 2553 with the IRS. This form is available at irs.gov or the "Business Services" page of our website.

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The Rest...

- Establish a business bank account using your EIN and Secretary of State Articles of Incorporation
- Establish and maintain a bookkeeping system to maintain a constant tracking of income and expenses. This can be anything such as an old-fashioned ledger book, a spreadsheet or software. Software tends to give businesses the advantage of integrated invoicing, check writing, payroll and other functions. A high-quality business has a good bookkeeping system. **REDEMPTION ACCOUNTING** can setup and maintain a bookkeeping system for you. Call today! (770) 775-6464