



# STARTING YOUR SMALL BUSINESS

Alaska Department of Commerce,  
Community and Economic Development

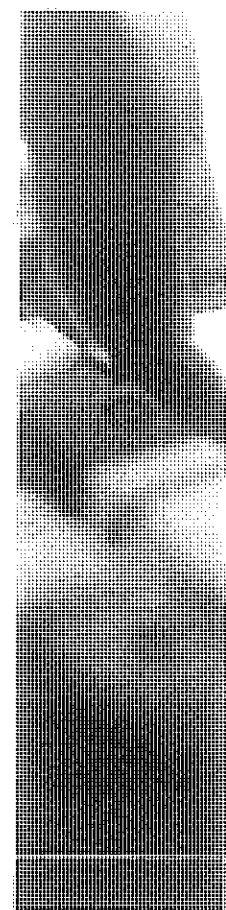
Office of Economic Development

Summer—Winter 2006



# Table of Contents

Entrepreneurship	1
So you want to start a business	2
Get valuable insight and guidance	3
Test your business concept	4
What is my concept?	5
Does my idea meet a consumer or business-to-business need?	5
What am I really, really selling?	5
Who needs it, and how many of these buyers are there?	5
What will it look like?	6
How am I going to sell it? Where? When?	6
Who is already doing exactly the same thing, or something very similar, or something related to my idea?	6
If I build it, will they buy?	7
Your business concept looks like it will work	7
Figure out what it will cost	8
Start-Up Costs	8
Operating Costs	9
Find out about licenses and permits	10
Alaska Business License	10
Professional License	10
Permits	16
Consider your financing options	19
Loans; The 5 Cs of Credit	19
Applying for that Loan	20
Other forms of business financing	21
Consider what kind of business structure to have	23
Sole Proprietorship	23
General Partnership	23
Corporation	23
Limited Liability	24
Consider legal protections for your business	25
Register Your Business' Name	25
Trademark	25
Copyright	25
Patent	25
Know the requirements for employers	27
Withholding Employee Taxes	28
IRS Resources	28



Starting Your  
Small Business

Summer-Winter  
2006

# Table of Contents

Alaska Employment Security Tax Handbook	29
Wage and Hour Administration	29
Workers' Compensation Insurance	30
Workplace Posters	30
Employee Polygraph Protection Act	30
Notice to Employees – Federal Minimum Wage	31
Your Rights Under the Family & Medical Leave Act of 1993	31
Employer's Notice of Insurance	31
Equal Employment Opportunity is the Law	31
Summary of Alaska Wage & Hour Act	31
Emergency Information	31
It's Your Right to Know/Safety and Health Protection on the Job	32
Notice to Employees – Unemployment Insurance	32
Uniformed Services Employment and Reemployment Rights Act	32
You Have a Right to a Safe and Healthful Workplace	32

## Know your business taxes 33

---

Local Municipal or Borough Taxes	33
State Taxes	33
Federal Taxes	33

## Plan your business in writing 34

---

The Cover Page	34
Executive Summary	34
Mission Statement	34
The Business' Legal Structure	34
Sole Proprietorship	34
General Partnership	34
Corporation	34
Limited Liability Company	34
Description of the business	35
Market Research	35
Marketing plan	35
The Four Ps	35
Management	36
Disaster Preparedness Plan	36
Business Exit Strategy	36
Financial Statements	36
Additional Documents	37
Forms and Templates	38
Outline of a marketing plan	38
Balance sheet at start-up	39
Start-Up and Operating Costs	41
Explanation of Start-Up Costs and Financing Needs	42
Example of Break-Even Analysis	43
Three-Year Profit & Loss Projection	44
Cash flow projections one year	45
1 Year Profit and Loss (Income) Statement	46

Starting Your  
Small Business

Summer-Winter  
2006

## Know why you are going into business

- Picture your business 10 years from now and you'll see the real reason why you are going into business, today. If in 10 years you see yourself selling a thriving business and retiring to Madagascar, you are going into business to build a long-term asset that will allow you to retire carefree. If in 10 years you see yourself still running your business and think you'll stick around till you die, your business is your life! Think ahead!

## The purpose of your business is to stay in business

- Vendors, customers, employees, landlords, government officials, other businesses, trade organizations, your family, and members of your community will all develop a mutually-beneficial relationship with your business. They will all count on you to stay in business for the long haul. Persevere!

## Every business decision has a tax consequence

- The best expense you'll ever incur will be to consult a tax accountant. He/she can help you choose your business' legal structure and guide you to conduct your business in a manner that minimizes your tax liabilities and saves you money. Don't sell your business short!

## Business loans are about relationships, not just money

- Apply for a loan with the lender with whom you've been saving your money, making mortgage or credit card payments, or writing checks. Applying for a loan from a bank in whose lobby you've never set foot before, is asking to have your application rejected. Relate to lenders, they are people, too!

## The cure for bad credit is time

- It is not about how many debts you have when you apply for a loan, it is about whether or not you are meeting the monthly payments for those liabilities regularly over a period of time. Bad credit? Bite the bullet and pay your debts without fail monthly over a period of at least one to two years. Your credit score will improve and you'll change your spending habits. Take charge!

## Every aspect of your business is affected by government regulations

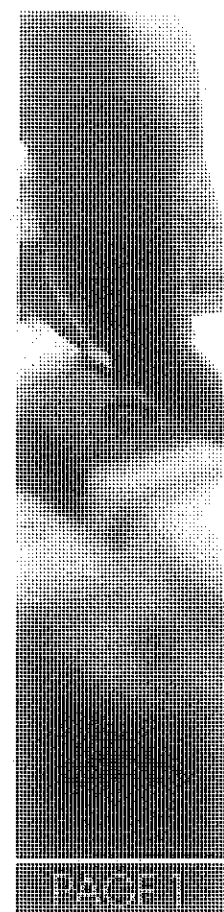
- Regulations are meant to protect the environment, hold professionals to standards, and to protect the public's health, safety, and rights—including your's, and that of your employees and customers. Keep in mind that you can always petition a government agency to review, amend, or repeal a harmful or burdensome. Get involved!

## All small businesses hang by their nails at one point or another

- If being a business owner were easy, everyone would be one. At one point or another, something beyond your control—market downturn, Act of God, rising fuel prices, changing tastes—will hit your business hard and keep you awake at night. Have a Plan B ready before that happens. Hang on!

## The competition is your best friend

- Competition keeps you motivated and challenged to do better. Don't be discouraged by competition, no matter how good they look or seem to be doing. If they come up with an idea, keep an eye on it. If it works for them, don't copy it, but think rather in terms of how you could build on it, or come up with something totally different. Be original!



Starting Your  
Small Business

Summer-Winter  
2006

## So you want to start a business...

1. You need a good business concept.
2. You have to be willing to work hard, very hard.
3. You need to stay motivated when things get difficult and don't promise much.
4. You need to be able to get along with your customers, vendors, neighbors, competitors, government inspectors, beggars, etc.

Starting and operating your own business means being the boss, and being the boss means doing whatever it takes to keep the business in business. Such as:

1. Making all business decisions.
2. Working as the receptionist, the errand-runner, the janitor, the repairman, and everything else it takes to open for business every day – until you are able to hire staff.
3. Selling your product or service to your customers.
4. Keeping the books.
5. Even if you can afford to hire a bookkeeper, you must know enough about bookkeeping to be sure that the necessary tasks are being done.
6. Collecting payments from customers.
7. Hiring, firing, and supervising employees.
8. Understanding the legal and regulatory aspects of your business.
9. Complying with paperwork required by regulations.

Starting a small business can take over your life. In the early stages, you may be doing everything yourself, running the business from your home and relying on family members as unpaid staff. Your success will require the support of your family, and their willingness to make sacrifices along with you in order to see the business succeed.



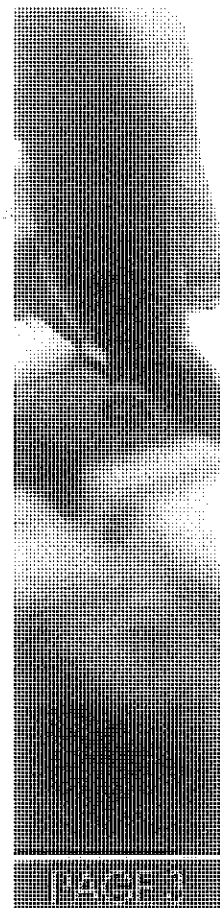
Starting Your  
Small Business

Summer-Winter  
2006

# Get valuable insight and guidance

Start by developing a roadmap of where you are at, and where you want to go, and how you are going to get there. There are many, many free services and resources that can be your sounding board and can guide you during the planning stages of your business, when you open your doors, and throughout the lifetime of your business.

Agency	Phone	Email or Website
Small Business Development Center	907-274-7232	<a href="http://www.aksbdc.org">www.aksbdc.org</a>
Small Business Development Center – Buy Alaska Program	907-274-7232	<a href="mailto:stella@buyalaska.com">stella@buyalaska.com</a>
SBDC TREND Alaska	907-274-7232	<a href="http://trendalaska.org">http://trendalaska.org</a>
Small Business Development Center – Procurement Technical Assistance Center (PTAC)	907-274-7232	<a href="http://www.ptacalaska.org">www.ptacalaska.org</a>
State of Alaska Dept. of Commerce, Community and Economic Development	907-269-8153	<a href="http://www.commerce.state.ak.us/investments/index.cfm">http://www.commerce.state.ak.us/investments/index.cfm</a>
State of Alaska Dept of Labor & Workforce Development, Business Connection	907-269-4774	<a href="mailto:nancy_heckmann@labor.state.ak.us">nancy_heckmann@labor.state.ak.us</a> <a href="http://www.jobs.state.ak.us/employer.htm">http://www.jobs.state.ak.us/employer.htm</a>
Service Corps of Retired Executives (SCORE)	907-271-4022	<a href="mailto:awrs@customcpu.com">awrs@customcpu.com</a> <a href="http://www.akscore.org/">http://www.akscore.org/</a>
Social Security Administration	907-271-4846	<a href="mailto:katherine.zuleger@ssa.gov">katherine.zuleger@ssa.gov</a>
State of Alaska Dept of Labor & Workforce Development, Wage and Hour	907-269-4902	<a href="mailto:charlotte_hughes@labor.state.ak.us">charlotte_hughes@labor.state.ak.us</a> <a href="http://www.labor.state.ak.us/lss/whhome.htm">www.labor.state.ak.us/lss/whhome.htm</a>
State of Alaska Dept of Labor & Workforce Development, Occupational Safety and Health	907-269-4944	<a href="mailto:danny_sanchez@labor.state.ak.us">danny_sanchez@labor.state.ak.us</a>
Anchorage Chamber of Commerce	907-272-2401	<a href="mailto:info@anchoragechamber.org">info@anchoragechamber.org</a> <a href="http://www.anchoragechamber.org">www.anchoragechamber.org</a>
State Chamber of Commerce	(907) 278-2727	<a href="mailto:ireinhart@alaskachamber.com">ireinhart@alaskachamber.com</a> <a href="http://www.alaskachamber.com">http://www.alaskachamber.com</a>
Alaska 8(a) Association	907-264-6724	<a href="http://www.8aonline.org/esa@8aonline.org">http://www.8aonline.org/esa@8aonline.org</a>
Alaska Business Development Center	907-562-0335	<a href="mailto:meganselk@abdc.org">meganselk@abdc.org</a> <a href="http://www.abdc.org/">http://www.abdc.org/</a>
YWCA Women's Finances	907-644-9612	<a href="mailto:areynolds@ywcaak.org">areynolds@ywcaak.org</a>
Anchorage Economic Development Corporation	907-258-3700	<a href="mailto:jptaylor@aedcweb.com">jptaylor@aedcweb.com</a> <a href="http://www.aedcweb.com/aedcdig/">www.aedcweb.com/aedcdig/</a>
IRS – Small Business Forms and Q&A		<a href="http://www.irs.gov/smallbiz">www.irs.gov/smallbiz</a>
IRS – Stakeholder Liaison	907-271-6458	<a href="mailto:marie.e.lozano@irs.gov">marie.e.lozano@irs.gov</a>
IRS - Taxpayer Advocate	907-271-6877	<a href="mailto:kristia.a.douts@irs.gov">kristia.a.douts@irs.gov</a>
IRS – Stakeholder Liaison (Bank Secrecy Act)	510-637-2621	<a href="mailto:terri.malone@irs.gov">terri.malone@irs.gov</a>
Taxpayer Advocacy	888-912-1227	<a href="http://www.improveirs.org">www.improveirs.org</a>
Tanana Chiefs Business Development Center	(907) 452-8251 or 1-800-478-6822	<a href="http://www.tccbuisnessdevelopment.com/">http://www.tccbuisnessdevelopment.com/</a>
ARDOR (Alaska Regional Development Organization)	907) 269-4587	<a href="http://www.commerce.state.ak.us/dca/ardor/ardor.htm">http://www.commerce.state.ak.us/dca/ardor/ardor.htm</a>
U.S. Social Security for Small Businesses		<a href="http://www.socialsecurity.gov/employer">www.socialsecurity.gov/employer</a>



Starting Your  
Small Business

Summer-Winter  
2006

# Test before you launch

You just know your business concept will work! Everyone will buy it. Nobody else is doing it, and Alaska is just ready for it. You will be your own boss, set your own hours, and take orders from no one. You'll be doing exactly what you love in life and getting paid to do it. You'll be spending some money on it, but you'll be making a living and maybe even profits in return.

Before you buy that business license, print those business cards and brochures, lease that space, or buy insurance, take the time to test your idea. Hold its feet to the flame. If it is a solid one, it will withstand a tough inquiry and you can bank on it. If it has some weaknesses it may need some modifications in order for it to work. And if it doesn't work, you'll have to be brave enough to discard it and trust that you will think of something else.

## The Test:

1. What is my concept?
2. Does my idea meet a consumer or business-to-business need?
3. What am I really, *really* selling?
4. What will it look like?
5. How am I going to sell it? Where? When?
6. Who is doing the same thing or something similar?
7. How much will it cost to launch?
8. If I build it, will they buy?

Most of these questions you can answer by examining the idea from every possible angle. Others will require some legwork, research and directly asking people what they think.

## What is my concept?

Whatever it is, it is not new. Someone else, somewhere else, has already dreamt your dream, they've put it to the test, launched it, and either succeeded or failed. Don't despair. Think in terms of "How does my concept stand out or differ from all that has come before it, or is already here"? Is it a new type of watch? Is it a *humongous* super-king-size bed?

## Does my idea meet a consumer or business-to-business need?

The basic needs of a human being are: air to breathe, water to drink, food for nourishment, and shelter for protection. However, being social animals, we also need love, approval, and acceptance into the fold. Which translates into millions and millions of needs that are socially dependent. For example: to look your best, to make money, to have the latest car, to have children reared in a good school, to be the coolest, tallest, thinnest, smartest, to stay young forever, to feel safe, to wear only red shoes, to make a living, to be comfortable, have perfectly white teeth.

The basic needs of a business are product or service, capital, personnel, location, materials, sound finances, good government relations. From there on there are millions and millions of business needs that are business-dependent, for example: a laundry service needs delivery, an oil company needs security officers to patrol its installations, and an assisted living home needs bookkeeping and tax preparation.

Ask yourself which of the many consumer or business needs is your product or service going to meet. Why would people or businesses buy what you have to sell? The answer should be "because they need it", or "because if they don't know they need it, I have a marketing plan that will successfully sell them the idea that they really need it."

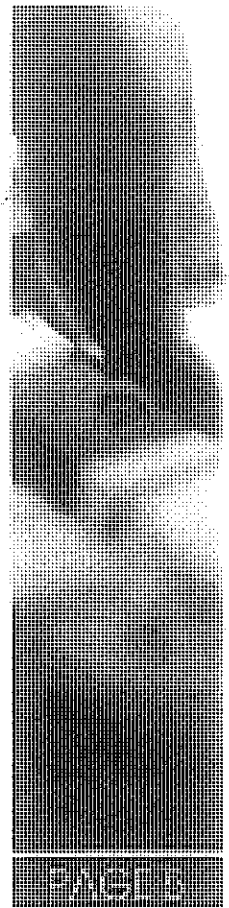
## What am I really, *really* selling?

Whether you are an airline business, a pancake house, a cigar shop, or an accounting firm, you are selling something. Let's say that in your case you are physically selling a **talking watch**, one that tells you and those around you the time in actual words "It is 12 and 30 minutes a.m..." Now think again, what are you *really* selling? Is it a reminder system? A gag item? A time-saving gadget? A status symbol? An assistive device for the visually-impaired?

1. If a reminder system, who'd buy it? – Busy professionals ages 21-30.
2. If a gag item, who'd buy it? – Teenagers and high schoolers.
3. If a time saving gadget, who'd buy it? Busy professionals ages 30-45.
4. If an assistive device for visually-impaired, who'd buy it? Visually impaired individuals age 18-78+, who have the income to buy it, or have medical coverage that pays for the item.

## Who needs it, and how many of these buyers are there?

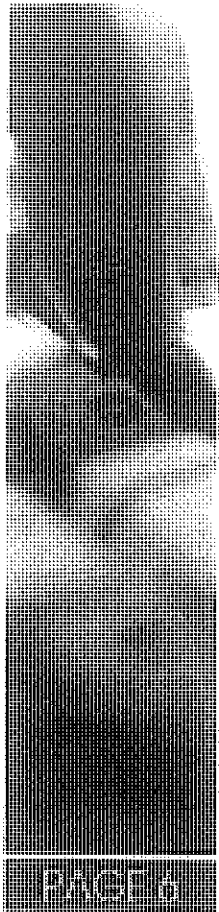
You decide that your talking watch is really a gag. Who needs this gag? Entertainers? Magicians? Teenagers? Men? Women? At Valentine's Day? For Christmas? Just how many of these buyers are there, 25 or 24,000? How much money do they usually spend on gadgets? Where do they shop for their gadgets, locally or online? Where are they located? Would they shop in downtown Anchorage, or would they rather shop online?



Starting Your  
Small Business

Summer-Winter  
2006





Entrepreneur

Starting Your  
Small Business

Summer-Winter  
2006

What will it look like?

It will be large, hot pink, with a face in the shape of lips talking! No, it will be square, brown with leather straps and leather framed face. No, it will look just like a super-expensive Swiss watch with a gold bracelet and will come in a fancy velvet covered box.... The way it looks will have a bearing on the costs to make it and sell it, and on how you market it to the world.

How am I going to sell it? Where? When?

You have figured out that the potential buyers are more bound to buy online. So, you will create a website with a good shopping cart, security to take credit cards, etc. You will name it "Talk to Me.com." I will have the site ready by November of this year in order to take advantage of the Holiday rush! How you sell it will also have a bearing on your costs. It will be quite cheaper to sell online than to lease and insure retail space in a city mall. Remember, if you sell online, you are going global and will need to consider the costs of currency exchanges, international shipping, etc.

Who is already doing exactly the same thing, or something very similar, or something related to my idea?

If you think there are no competitors, think again. Competitors can come in unexpected ways. For example: there is a site called [WhispertoMe.com](http://WhispertoMe.com) that sells all kinds of talking gadgets, ranging in price from \$2.50 to \$250. There is [Swisslookinggag.com](http://Swisslookinggag.com) a watch that blows a kiss at the wearer, and is priced at \$17.99. There is a local store [SingMetoSleep](http://SingMetoSleep) that sells singing watches at \$20.00 each.

You have to think in terms of "why would the consumers buy these watches from me, instead of from these other guys"? How can you compete with these other gadgets? Because your watches are all pink instead of all colors of the rainbow? Because your watches are cheaper and more affordable than the competition's gadgets? Because your watches are larger and easier to read and hear? Think in terms of what differentiates your product from theirs, and based on that difference, what can you do to **attract buyers** to your product and away from theirs'.

Consider that we are in the age of partnering, outsourcing and collaboration. Head-on competition is becoming less prevalent as business owners realize that "if you join them, you both might profit." Consider that you could partner successfully with [WhispertoMe.com](http://WhispertoMe.com) or [SingMetoSleep](http://SingMetoSleep) and sell your watches wholesale to them rather than one at a time just through your website.

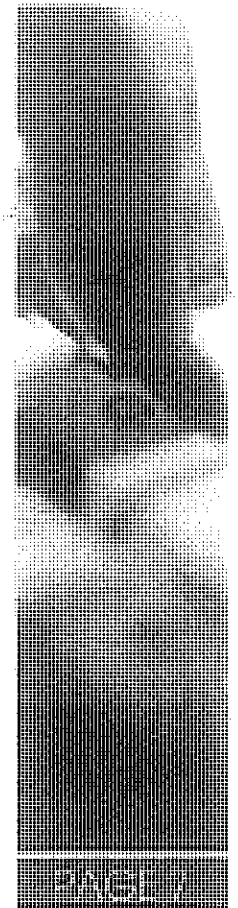
## If I build it, will they buy and for how much?

Ask them. Ask everyone with whom you come in contact. Tell them that you have a talking watch and ask each one of them all the same questions

1. Would you buy a talking watch if it was available locally?       YES     NO
2. Would you buy it if it was available online, only       YES     NO
3. How much would you be willing to pay?       \$25     \$50     \$100
4. How many would you buy at that price?       1     3     More than 3
5. Any comments or suggestions? \_\_\_\_\_

So, it looks like your business concept will work!

You conclude that your wonderful talking watch idea has great potential because there are tons of entertainers and magicians in Alaska, and the teenagers you surveyed said they would love a talking watch with the condition that it be a programmable talking watch so they can put in their own phrases. Your concept seems promising, with some tweaking. Maybe you'll have two different types of watches. Maybe you'll make them both programmable. Whichever you chose, your work is cut out for you, thanks to the valuable research you did. When you are ready to launch you'll feel confident that you'll succeed.



Starting Your  
Small Business

Summer-Winter  
2006

# Figure out what it will cost to start

## Start-Up Costs

To put your idea into motion, make a list of every single thing that you will need to get that first watch to a buyer.

You determine that you have to create a website with security and a shopping cart, and that it will cost approximately \$10,000. There are no local manufacturers that can make these watches so you have to have the product created in China, 15,000 watches minimum at a time, you get to decide how you want them packaged and labeled.

In order to start your business you need to have China manufacture for you 15,000 watches at \$2 a watch. That means at a minimum you need \$30,000 cash to start your business. Then to that \$30,000 you have to add the cost of designing and producing the packaging for each watch. Do you want the 15,000 watches to be shipped to you in baggies, individual boxes or blister packages? What will these packages look like? Will the cost include bar coding, shipping and handling, freight, customs fees, etc. So you decide that the total to start out with the first batch will be:

\$30,000	Watch manufacture
\$4,000	Packaging Design
\$1,000	Packaging manufacture
\$550	Handling and Shipping
\$25	Shipping Insurance
<u>\$250</u>	U.S. Customs fees
<b>\$35,825</b>	<b>TOTAL</b>

\$10,000	Website
\$5,000	Business Insurance
\$1,000	VISA and MC Credit Card Acceptance fees
\$250	Individual shipping envelopes for retail sale
\$5,000	Initial advertising campaign
\$200	Business License
<u>\$1,000</u>	Attorney or CPA documents fees
<b>\$22,450</b>	<b>TOTAL</b>

\$35,825	
<u>\$22,450</u>	
<b>\$58,275</b>	<b>Your total start up costs</b>

Starting Your  
Small Business

Summer-Winter  
2006

## Operating Costs

Now, do a break-even analysis—a rough estimate of what level of monthly sales will be needed for your business to work out. The *break-even point* is the amount of sales that will cover all your costs of doing business, before there is any profit.

**Fixed Monthly Expenses** - First, add up your fixed costs for a month—those that you have to pay in full and are non-negotiable even if you are in the red.

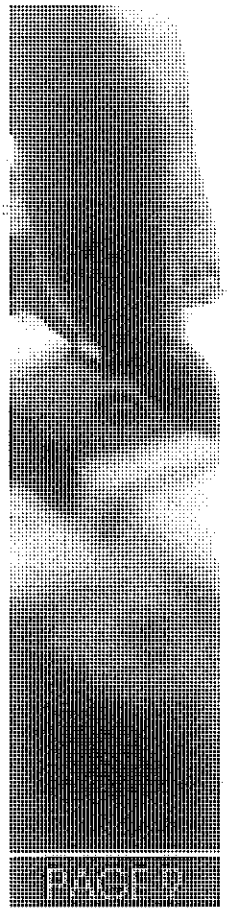
**Costs of Goods Sold** - Next, add up your costs of doing business (COGS) per one unit of product. COGS are expenses that make up the cost of the items you sell, or costs that increase and decrease with the amount of sales. Your COGS might be the wholesale price of an item that you purchase to sell, or it might be the costs of supplies and labor for an item that you make.

Labor may be a fixed cost, such as a salary for the business owner. Labor costs may also be variable costs, such as when the business is providing a service and the variable cost is the time spent providing the service. Fixed cost may also include an amount to cover the cost of equipment.

**Variable Expenses** – Third add in the variable expenses which you can control up to a certain point by buying less or more of them, or skipping them altogether.

Finally add all the fixed, COGS and variable expenses. These costs have to equal your income from sales of talking watches in order for you to break even.

Next you have to figure out, how many talking watches, and at what price you need to sell each month in order to cover your out of pocket monthly costs—break-even (Appendix B). If your calculation is that you need to sell 2,000 watches every month to break even, you need to ask yourself, if realistically you can sell that many watches each month, or do I need to adjust the price and consider lowering my costs somehow.



Starting Your  
Small Business

Summer-Winter  
2006

# Find out what licenses and/or permits you'll need

Please note that this list covers the basic requirements common to most businesses. Be sure to check for additional requirements specific to your location or industry.

## Alaska Business License

Anyone who engages in a business activity in Alaska must have a state business license for that activity. If the activity includes tobacco sales, a tobacco endorsement is also required. Business licenses are available from:

**Division of Corporations, Business and Professional Licensing**  
**Department of Commerce, Community and Economic Development**  
P.O. Box 110806  
Juneau, AK 99811 <http://www.commerce.state.ak.us/occ/home.htm>  
Juneau (907) 465-2550  
Anchorage (907) 269-8173

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## Professional License

Some types of work require a professional license. Licensing ensures that professional standards are maintained, and that the safety of the public is protected. State and federal agencies involved in professional licensing are as follows:

**Division of Corporations, Business and Professional Licensing**  
**Department of Commerce, Community, and Economic Development**  
P.O. Box 110806  
Juneau, AK 99811  
Phone (907) 465-2534  
Fax (907) 465-2974  
<http://www.commerce.state.ak.us/occ/home.htm>

Professional licenses are required for any of these professions:

Acupuncturists	Electrical Administrators	Optometry
Architects, Engineers, and Land Surveyors	Euthanize Domestic Animals	Pharmacy
Audiologists and Speech-Language Pathologists	Geologists	Physical Therapy and Occupational Therapy
Barbers and Hairdressers	Guardians and Conservators	Professional Counselors
Big Game Guides and Transporters	Hearing Aid Dealers	Psychologist and Psychological Associate
Chiropractic Examiners	Home Inspectors	Public Accountancy
Collection Agencies	Marine Pilots	Real Estate
Concert Promoters	Marital and Family Therapy	Real Estate Appraisers
Construction Contractors	Mechanical Administrators	Social Work Examiners
Dental Examiners	Medical Board	Underground Storage Tank Worker
Dietitians and Nutritionists	Midwives	Veterinary Examiners
Dispensing Opticians	Morticians	
	Naturopathy	
	Nursing	
	Nursing Home Administrators	

Starting Your  
Small Business

Summer-Winter  
2006

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**Mechanical Inspection Section**  
**Division of Labor Standards and Safety**  
**Department of Labor and Workforce Development**  
3301 Eagle Street #302  
Anchorage, AK 99503  
Phone (907) 269-4925  
Fax (907) 269-4932  
<http://labor.state.ak.us/lss/lssforms.htm>

**Licensing for the following occupations:**

Plumber  
Electrical Worker  
Boiler Operator Hazardous Paint Handler Explosives Handler  
Asbestos Removal Worker

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**Wage and Hour Administration**  
**Division of Labor Standards and Safety**  
**Department of Labor and Workforce Development**  
1111 West 8th Street, Room 304  
Juneau, AK 99801  
Phone (907) 465-4855  
Fax (907) 465-6012  
<http://labor.state.ak.us/lss/home.htm>

Licensing for the following occupation:

Employment Agency Operator

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**Division of Banking and Securities**  
**Department of Commerce, Community, and Economic Development**  
P.O. Box 110807  
Juneau, AK 99811  
Phone (907) 465-2521  
Fax (907) 465-1230  
<http://www.commerce.state.ak.us/bsc/home.htm>

Licensing for the following occupation:

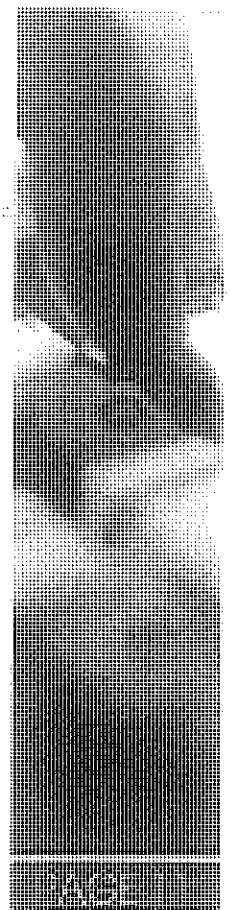
Investment Broker-Dealer and related occupations  
Mortgage Lender (Alaska Legislative Session 2006)

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**Division of Insurance**  
**Department of Commerce, Community, and Economic Development**  
P.O. Box 110805  
Juneau, AK 99811  
Phone (907) 465-2515  
Fax (907) 465-3422  
<http://www.commerce.state.ak.us/insurance/>

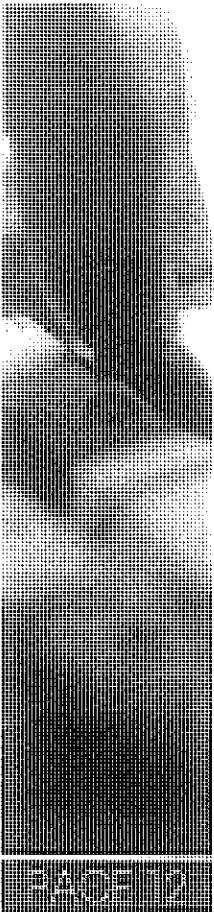
Licensing for the following occupation:

Insurance occupations



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Summer-Winter  
2006



Starting Your  
Small Business  
Summer-Winter  
2006

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**Division of Public Assistance**

**Department of Health and Social Services**

Phone (907) 269-4600 or 1-800-764-9466 (message) Fax (907) 269-1064  
<http://www.hss.state.ak.us/dpa/programs/ccare/licensing.html>

Licensing for the following occupation:

Child Care Provider (includes day care centers and child care homes)

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**Teacher Certification**

**Department of Education and Early Development**

801 West 10th Street, Suite 200

Juneau, AK 99801

Phone (907) 465-2831

Fax (907) 465-2441

<http://www.eed.state.ak.us/teachercertification/>

Licensing for the following occupation:

Teacher

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**Division of Administrative Services**

**Department of Fish and Game**

P.O. Box 25526

Juneau, AK 99802

Phone (907) 465-6085

Fax (907) 465-6078

<http://www.admin.adfg.state.ak.us/license/>

Licensing for the following occupations:

Commercial Crewmember

Sport Fish Business Owner and Guide

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**Alcoholic Beverage Control Board**

**Department of Public Safety**

5848 E. Tudor Road

Anchorage, AK 99507

Phone (907) 269-0350

Fax (907) 272-9412

<http://www.dps.state.ak.us/abc/>

Training certification for the following occupation:

Alcohol Server

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**Division of Motor Vehicles**

**Department of Administration**

1300 W. Benson Blvd., Suite 200

Anchorage, AK 99503

Phone (907) 269-5551

<http://www.state.ak.us/dmv>

Licensing for the following occupation:

Commercial Motor Vehicle Operator

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**Section of Community Health and Emergency Medical Services**  
**Division of Public Health**  
**Department of Health & Social Services**  
P.O. Box 110616  
Juneau, AK 99811-0616  
Phone (907) 465-3027  
Fax (907) 465-6736  
<http://www.chems.alaska.gov/EMS/certification.htm>

Certification for the following occupation:

Emergency Medical Technician

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**Pesticide Control Program**  
**Division of Environmental Health**  
**Department of Environmental Conservation**  
1700 E Bogard Road, Bldg B, Suite 202  
Wasilla, AK 99654  
Phone (800) 478-2577  
Fax (907) 376-2382  
<http://www.dec.state.ak.us/eh/pest/>

Licensing/certification for the following occupation:

Pesticide Applicator

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**Operator Training and Certification Program**  
**Division of Water**  
**Department of Environmental Conservation**  
410 Willoughby Avenue, Suite 303  
Juneau, AK 99801  
Phone (907) 465-5143  
Fax (907) 465-5177  
<http://www.dec.state.ak.us/water/opcert/index.htm>

Licensing for the following occupation:

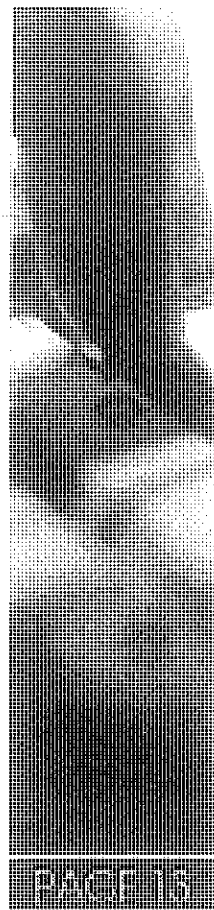
Water and Wastewater Systems Operator

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**Permits and Licensing Unit Division of Statewide Services**  
**Department of Public Safety**  
5700 East Tudor Road  
Anchorage, AK 99507  
Phone (907) 269-0393  
Fax (907) 269-5609  
<http://www.dps.state.ak.us/PermitsLicensing/>

Licensing for the following occupations:

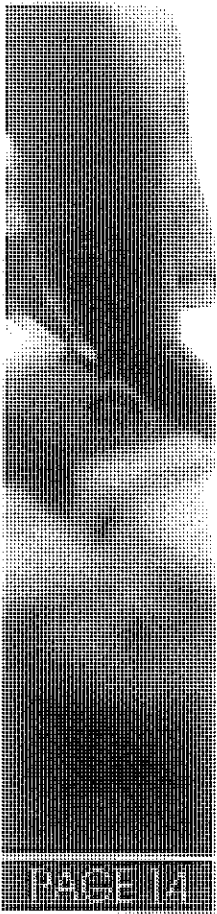
Security Guard  
Process Server



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Small Business

Summer-Winter  
2006





Starting Your  
Small Business

Summer-Winter  
2006

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**Board of Governors Alaska Bar Association**

P.O. Box 100279  
Anchorage, AK 99510  
Phone (907) 272-7469  
Fax (907) 272-2932  
<http://www.alaskabar.org>

Licensing for the following occupation:

Attorney

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**Commercial Fisheries Entry Commission**

8800 Glacier Highway #109  
Juneau, AK 99801  
Phone (907) 789-6160  
Fax (907) 789-6170  
<http://www.cfec.state.ak.us>

Licensing for the following occupation:

Commercial Fisher (includes sport fishing)

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**Division of Sport Fish**

**Department of Fish and Game**

333 Raspberry Road  
Anchorage, AK 99518-1599  
Phone (907) 267-2369  
Fax (907) 267-2422  
<http://www.sf.adfg.state.ak.us/statewide/Guides/Guideforms.cfm>

Licensing for the following occupations:

Sport Fishing Guides  
Sport Fishing Charters

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**Federal Aviation Administration**

**U.S. Department of Transportation**

222 West 7th Ave  
Anchorage, AK 99513  
Phone (907) 271-5514  
Fax (907) 271-1665  
<http://www.alaska.faa.gov>

Licensing for the following occupations:

Aircraft Pilot  
Aircraft Mechanic  
Aircraft Dispatcher

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**Office of Marine Safety**

**U.S. Coast Guard**

2760 Sherwood Lane #2A

Juneau, AK 99801

Phone (907) 463-2458

<http://www.uscg.mil/stcw/>

800 E Dimond Blvd, Suite 3-227

Anchorage, AK 99515

Phone (907) 271-6736

Licensing for the following occupations:

Charter Boat Operator

Merchant Marine

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**U.S. Customs and Border Protection**

**U.S. Department of Homeland Security**

605 West 4th Avenue, Room 203

Anchorage, AK 99501

Phone (907) 271-2675

Fax (907) 271-2684

<http://www.cbp.gov/xp/cgov/home.xml>

Licensing for the following occupation:

Customs Broker and related occupations

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**Environmental Protection Agency**

**U.S. Department of Energy**

1200 Sixth Avenue

Seattle, WA 98101

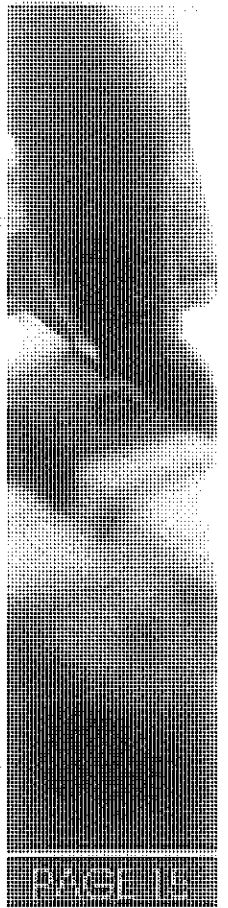
Phone 1-800-424-4372

<http://www.epa.gov>

Licensing for the following occupations:

Freon Technician,

Certified Motor Vehicle Air Conditioning Technician



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Small Business

Summer-Winter  
2006



**Check with your local municipal government for other permits, certifications or licenses that may be required.**

## Permits

### **Environmental Permit**

Some businesses will need permits from the Alaska Department of Environmental Conservation. Just a few examples of the types of businesses that may need permits are bed & breakfasts, barber shops, food processors, and businesses using pesticides. A list of forms and permit applications is available at <http://www.dec.state.ak.us/eh/forms.htm>

For help determining what permits you may need, contact:

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#### **Department of Environmental Conservation**

555 Cordova Street  
Anchorage, AK 99501  
Phone (907) 269-7501 or 1-800-510-ADEC Fax (907) 269-7510

**NOTE:** Each municipality may have additional permit requirements.

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### **Occupational Safety**

Standards for occupational safety and health are administered by the Labor Standards and Safety Division of the Alaska Department of Labor and Workforce Development. The Wage and Hour Administration enforces labor laws. The Mechanical Inspection Section inspects and certifies amusement rides, boiler and pressure vessels, elevators, and electrical and plumbing installations. The Occupational Safety and Health Section protects workers from job-related accidents and illnesses. For more information, contact:

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#### **Division of Labor Standards and Safety Department of Labor and Workforce Development**

1111 West 8th Street, Room 304  
Juneau, AK 99801  
Phone (907) 465-4855  
Fax (907) 465-6012  
<http://labor.state.ak.us/lss/home.htm>

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### **Alcoholic Beverage Licenses and Permits**

The Alcoholic Beverage Control Board controls the manufacture, barter, possession, and sale of alcoholic beverages in Alaska. The Board issues liquor licenses, and permits for catering, restaurants, and special events. For more information, contact:

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#### **Alcoholic Beverage Control Board Department of Public Safety**

5848 E. Tudor Road  
Anchorage, AK 99507  
Phone (907) 269-0350  
Fax (907) 272-9412  
<http://www.dps.state.ak.us/abc/>

Starting Your  
Small Business

Summer-Winter  
2006

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### **Tobacco License**

The Department of Revenue issues licenses for trade in tobacco products, including retailers and vending machine operators. Information on licensing and bonding for trade in tobacco products is available from:

<b>Tax Division</b> Department of Revenue P.O. Box 110420 Juneau, AK 99811 Phone (907) 465-2320 Fax (907) 465-2375 <a href="http://www.tax.state.ak.us/programs/tobacco/index.asp">http://www.tax.state.ak.us/programs/tobacco/index.asp</a>	<b>Tax Division</b> Department of Revenue 550 West 7th Avenue, Suite 500 Anchorage, AK 99501 Phone (907) 269-6620 Fax (907) 269-6644
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### **State Bonded Warehouse License**

(for alcoholic beverage warehouses)

A license from the Department of Revenue is required to operate an alcoholic beverage warehouse. Information is available from:

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**Tax Division**  
**Department of Revenue**  
550 West 7th Avenue, Suite 500  
Anchorage, AK 99501  
Phone (907) 269-6620  
Fax (907) 269-6644  
<http://www.tax.state.ak.us/programs/alcohol/index.asp>

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### **Alaska Seafood Processor and Exporter License**

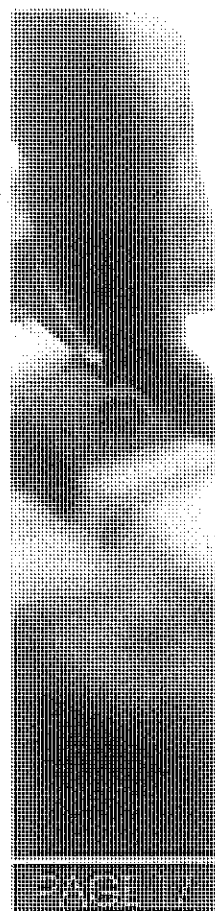
A single "Intent to Operate" license and permit for seafood processors and exporters is available that covers the requirements for Department of Revenue, Department of Environmental Conservation, and Department of Fish and Game. The application must be completed by anyone who:

- receives, prepares, processes, or transports a seafood or fishery product, including roe recovery, to sell for human consumption.
- custom processes a seafood or fishery product.
- has a seafood or fishery product custom processed for them.
- transports an unprocessed seafood or fishery product outside of Alaska.

The application and instructions are available from:

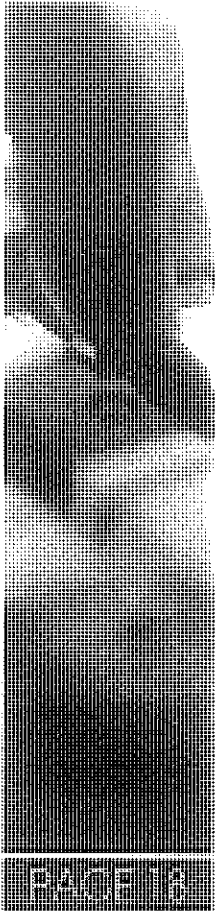
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**Tax Division Department of Revenue P.O. Box 110420**  
Juneau, AK 99811  
Phone (907) 465-4683  
Fax (907) 465-2375  
<http://www.tax.state.ak.us/programs/fisheries/index.asp>



Starting Your  
Small Business

Summer-Winter  
2006



Starting Your  
Small Business

Summer-Winter  
2006

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### **Mining License**

Mining licenses are issued by Department of Natural Resources for all mining operations including sand and gravel. Information is available from:

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### **Division of Mining, Land, and Water**

#### **Department of Natural Resources**

550 West 7th Avenue, Suite 900B Anchorage, AK 99501

Phone (907) 269-8647

Fax (907) 269-8949

<http://www.dnr.state.ak.us/mlw>

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### **Qualified Dealer License**

(for motor fuel dealers)

Motor fuel wholesalers and distributors obtain a qualified dealer license from the Department of Revenue. Information is available from:

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### **Tax Division**

#### **Department of Revenue**

550 West 7th Avenue, Suite 500

Anchorage, AK 99501

Phone (907) 269-6642

Fax (907) 269-6644

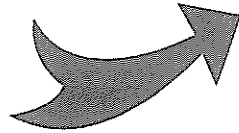
<http://www.tax.state.ak.us/programs/motorfuel/index.asp>

# Consider your financing options

Initial financing should be enough to cover the costs of setting up your business location, equipment and furnishings, and inventory. Also be sure to have enough money to cover the costs of operations until the business' cash flow meets your requirements – both for the business and for yourself.

Once you know how much money you need to get started, where do you find it? Common sources of business financing are:

- personal savings
- family and friends
- bringing in a partner
- banks and credit unions
- faith-based programs



But don't overlook:

- credit from vendors and suppliers
- equipment leasing
- venture capital

In general, grants are not available to individuals for starting a business.

Take stock of your personal assets such as savings, investments, availability of credit, equity in your home, and see what can be used to start your business. Raise money by selling some valuables... try eBay. While you may not have enough money in your pocket to cover all your start-up needs, be prepared to use your own money if you are someone else for a loan. Other sources of financing are going to expect you to put your own money or property at risk, along with theirs.

Financing comes in two basic forms — **debt and equity**.

- **Debt financing** is money that will be paid back on specified terms. A bank loan represents debt financing.
- **Equity financing** is giving up a portion of the ownership of the business in exchange for financing.

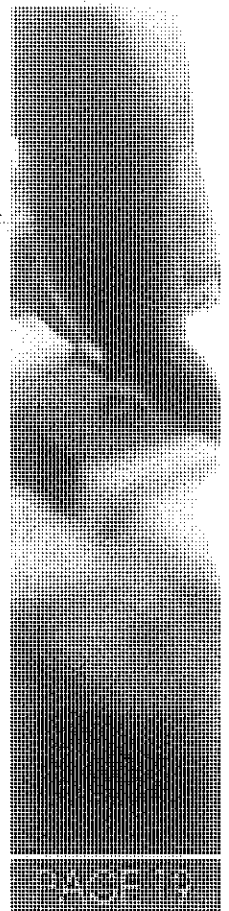
Venture capitalists — individuals or companies that invest money in private businesses, provide equity financing.

## Loans; The 5 C's of Credit

Every lending institution will have paperwork requirements, which generally include a copy of your business plan. In general, the lending institution will evaluate your request on the basis of the 5 C's of Credit:

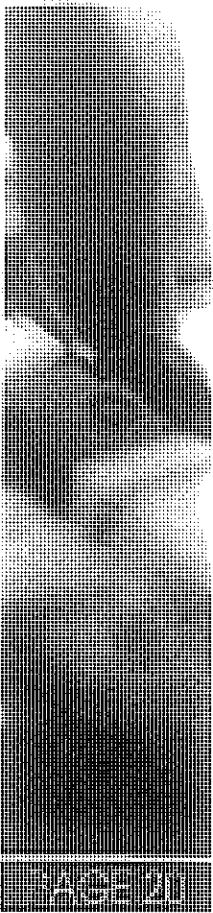
- CAPITAL** ▶ the amount of your own money invested in the business.
- CHARACTER** ▶ your reputation in business matters, including your credit history.
- CAPACITY** ▶ your credit limit and the cash flow available to repay the loan.
- COLLATERAL** ▶ assets pledged as security for the loan. Guarantees – someone else's promise to repay the loan if you don't – can also serve as collateral.
- CONDITIONS** ▶ the intended uses of the loan, and the business environment in which you will be operating.

Be prepared and organized when approaching a lender. In addition to having a copy of your business plan available, be prepared to tell the lender how much money you need, what you need it for, how much of your own money you are going to put in, and how you will pay the lender back.



Starting Your  
Small Business

Summer-Winter  
2006



Starting Your  
Small Business

Summer-Winter  
2006

## Applying for that Loan

Check out the current loans made by several institutions and compare interest rates and terms. Pick the ones that best meet your needs or preferences—hopefully you will have done business with them, already. You can either download almost any loan application from the institutions' websites, or ask any loan officer for an application packet. The latter works best because you have the advantage of a face-to-face contact with the banker. You can share your business concept with him/her at which time, he/she might already tell you whether their institution makes loans to your particular type of business. If it does, then let him/her know that your application will be forthcoming complete with a business plan, and all financial documents.

Fill in the application, completely. Call the banker and ask for clarification on anything you don't understand in the application. Make sure you attach ALL documents required by the application. Mail your completed application, or if possible, hand-deliver it to the banker.

Commercial banks are the most common source of business loans. Other sources include revolving loan funds, state or federal loan funds, and local revolving loan funds from the Alaska ARDOR for your area.

You can also contact the following agencies and organizations for more information about business financing programs. For programs that fit your business proposal, be sure to ask for current information about terms and conditions, the availability of funds, and application procedures.

### **Alaska Division of Investments**

Department of Commerce, Community, and Economic Development  
P.O. Box 34159, Juneau, AK 99803-4159  
Phone (907) 465-2510, Fax (907) 465-2103,

In Anchorage (907) 269-8150 Fax (907) 269-8147

### **The Rural Development Initiative Fund (RDIF)**

Available only to businesses located in a community with a population of 5,000 or less. Loans must result in the creation or retention of jobs in the community.

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### **Alaska Growth Capital**

3900 C Street, Suite 302  
Anchorage, AK 99503  
Phone (907) 339-6760 or toll-free 1-888-315-4904  
Fax (907) 339-6771  
<http://www.alaskagrowth.com>

Alaska Growth Capital provides loans to viable businesses that banks consider too risky. Alaska Growth Capital also makes equity investments in businesses by buying stock in the company, and makes hybrid loans that combine the features of debt and equity financing.

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### **Alaska Industrial Development and Export Authority (AIDEA)**

813 W. Northern Lights Blvd. Anchorage, AK 99503  
Phone (907) 269-3000 or toll-free 1-888-300-8534  
Fax (907) 269-3044  
<http://www.aidea.org/>

AIDEA's Loan Participation Program increases the availability of financing by purchasing a portion of a loan from a financial institution. AIDEA's portion of the loan may offer a lower interest rate or a longer term than the bank's portion. Application to the Loan Participation Program is made after the loan is approved by the financial institution.

#### **U.S. Small Business Administration**

510 L Street, Suite 310  
Anchorage, AK 99501  
Phone (907) 271-4022 or toll-free 1-800-755-7034  
Fax (907) 271-4545  
<http://www.sba.gov/ak/>

The SBA's 7(a) Loan Guaranty Program is available to most small businesses, and provides a guaranty of up to 85% of loans in the amount of \$150,000 or less. For larger loans, the maximum guaranty is 75%. Most private sector lenders are familiar with the SBA program.

The 504 Loan Program provides financing through a Certified Development Company (CDC), a nonprofit corporation set up to enhance economic development. The CDC provides a portion of the financing in addition to an amount borrowed from a bank. 504 loans cannot be used for working capital, inventory, or restructuring of existing debt. The CDC for Alaska is:

#### **Evergreen Community Development Association**

Desiree Gray, Loan Officer  
900 Fourth Avenue, Suite 2900  
Seattle, WA 98164  
Phone (206) 622-3731 or 1-800-878-6613  
Fax (206) 623-6613  
<http://www.ecda.com>

#### **U.S.D.A. Rural Development**

800 W. Evergreen, Suite 201  
Palmer, AK 99645  
Phone (907) 761-7705  
Fax (907) 761-7783  
<http://www.rurdev.usda.gov/ak/business%20&%20industry.htm>

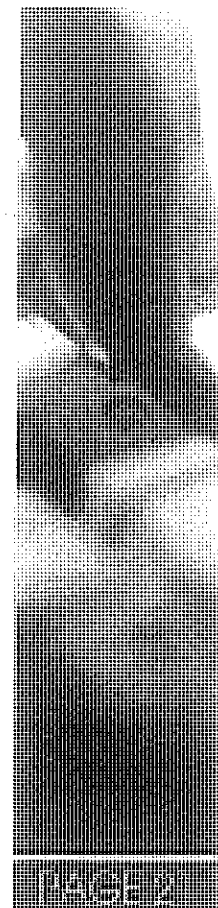
The Business and Industry Guaranteed Loan Program provides guarantees for loans made by an authorized lender. The program is available to businesses anywhere in Alaska outside the Municipality of Anchorage. The percentage of the guarantee varies with the size of the loan.

### **Other forms of business financing**

Venture capital firms invest money in businesses in exchange for a share of ownership. Venture capital is a form of equity financing, that is, it is not repaid like a bank loan. However, venture capitalists often expect a substantial return on their investment.

Grants are generally available only to businesses to pursue the advancement of knowledge or the development of new technologies; or for vocational rehabilitation.

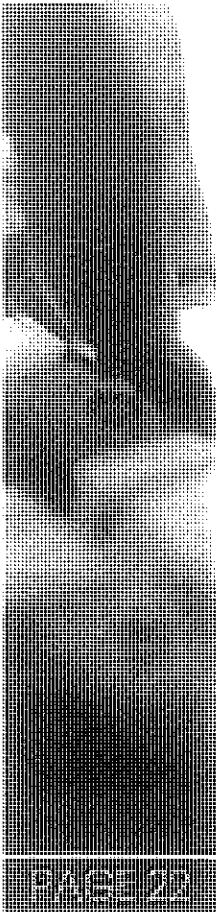
Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) are federal grant programs that provide funding for the research and development of new technologies. Assistance with identifying and applying for these grants is available from:



Starting Your  
Small Business

Summer-Winter  
2006





Starting Your  
Small Business

Summer-Winter  
2006

**TREND – Technology Research and Development Center**

430 West 7th Avenue, Suite 110  
Anchorage, AK 99501  
Phone (907) 274-7232 or 1-800-478-7232  
Fax (907) 274-9524  
<http://www.trendalaska.org>

**Alaska Regional Development Organizations (ARDORs)**

**Anchorage Economic Development Corporation**

900 West 5th Avenue, Suite 300  
Anchorage, AK 99501  
Phone (907) 258-3700  
Fax (907) 258-6646  
<http://www.aedcweb.com/>

**Bering Strait Development Council**

Kawerak, Incorporated  
P.O. Box 948  
Nome, Alaska 99762  
Phone (907) 443-4248  
Fax (907) 443-4449  
<http://www.kawerak.org/>

**Copper Valley Economic Development Council**

P.O. Box 9  
Glennallen, AK 99588  
Phone (907) 822-5001  
Fax (907) 822-5009  
<http://www.alaskaeconomicdevelopment.org/>

**Fairbanks North Star Borough Economic Development Commission**

P.O. Box 71267  
Fairbanks, AK 99707  
Phone (907) 459-1309  
Fax (907) 459-1102  
<http://co.fairbanks.ak.us>

**Kenai Peninsula Borough Economic Development District**

14896 Kenai Spur Hwy, Suite 103-A Kenai, AK 99611-7000  
Phone (907) 283-3335 ext. 222  
Fax (907) 283-3913  
<http://www.kpedd.org/>

**Lower Kuskokwim Economic Development Council**

P.O. Box 2021  
Bethel, AK 99559  
Phone (907) 543-5967  
Fax (907) 543-3130

**Mat-Su Resource Conservation & Development Council**

1700 E. Bogard Road, Suite 203  
Wasilla, AK 99654  
Phone (907) 373-1062 ext. 108  
Fax (907) 373-1064  
<http://www.matsurcd.com>

**Northwest Arctic Borough Economic Development Commission**

P.O. Box 1110  
Kotzebue, AK 99752  
Phone (907) 442-2500  
Fax (907) 442-3740  
<http://www.northwestarcticborough.org>

**Prince William Sound Economic Development District**

2207 Spenard Rd, Suite 207  
Anchorage, AK 99503  
Phone (907) 222-2440  
Fax (907) 222-2411  
<http://www.alaska.net/~pwsedc/>

**Southeast Conference**

P.O. Box 21989  
Juneau, AK 99802  
Phone (907) 463-3445 ext.23  
Fax (907) 463-4425  
<http://www.seconference.org>

**Southwest Alaska Municipal Conference**

3300 Arctic Blvd., Suite 203  
Anchorage, AK 99503  
Phone (907) 562-7380  
Fax (907) 562-0438  
<http://www.swamc.org>

# Consider what kind of business structure to have

Consult your tax accountant

**Sole Proprietorship** A sole proprietorship is a business owned by one person. The business is not legally separate from the business owner.

## **Formation**

To form a sole proprietorship, all the business owner needs to do is obtain a business license and satisfy any necessary licensing requirements. There are no special fees or forms required for the formation of a sole proprietorship. A federal Employer Identification Number (EIN) is only required if the business has employees.

## **Tax Liability**

The owner reports the business revenues and expenses on his own tax return, on Schedule C of the Form 1040. The business profits are taxable income to the owner in the year in which they are earned, and are taxed at the owner's tax rate. The sole proprietor may set up a tax-sheltered retirement program, such as a Keogh plan. The business' health insurance premiums may not be fully deductible. Sole proprietors pay self-employment tax in place of social security and Medicare.

## **Risk Management**

The business owner is personally responsible for all of the business' debts, court judgments, and other liabilities. Insurance policies are available to provide some protection for the business owner.

**General Partnership** A general partnership is a business owned by two or more people who have not filed the paperwork to form a corporation or a limited liability company.

## **Formation**

A written partnership agreement is not required, but can help avoid settling future disputes in the courts. The agreement spells out the rights and responsibilities of each partner, and addresses such issues as adding partners in the future. Each partner must act in good faith and loyalty to the other partners. A partnership is automatically dissolved when one partner dies unless the partners have agreed otherwise in writing. A partnership must obtain a federal EIN.

## **Tax Liability**

The partnership does not pay income taxes, but files an information return with the Internal Revenue Service. Each partner's share of revenues and expenses is reported on his personal tax return. A partnership is treated the same as a sole proprietorship with respect to retirement and health plans, and self-employment tax.

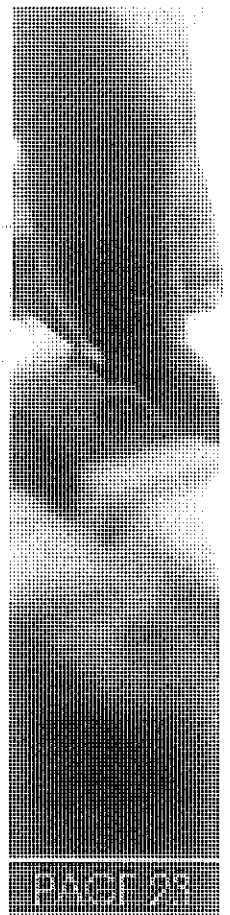
## **Risk Management**

Each partner is personally responsible for all partnership debts and liabilities. Each partner can take actions that are legally binding on the other partners. Insurance policies are available to provide some protection for the partners.

**Corporation** A corporation is an independent legal entity, separate from the owners, created upon filing Articles of Incorporation. It has legal status or existence that is separate both from the individual(s) who forms it and its owners.

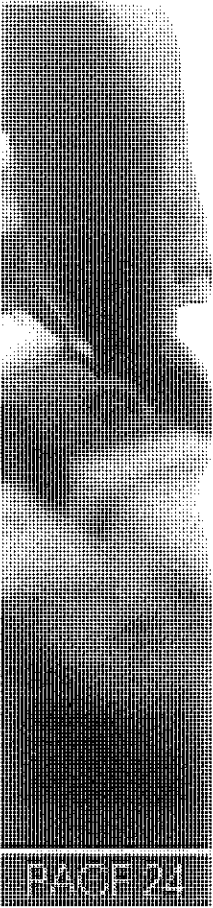
## **Formation**

*Articles of Incorporation* are written and filed with the State of Alaska. The State then issues a Certificate of Incorporation. A single owner can form a corporation. Investors can become owners of the business, and shares can be sold to raise capital. (Please consult the Alaska



Starting Your  
Small Business

Summer-Winter  
2006



Division of Corporations, Business and Professional Licensing and the U. S. Securities and Exchange Commission for appropriate guidelines). The corporation can designate different classes of stock that carry different rights, such as non-voting stock. The corporation continues to exist after the death of a shareholder. A corporation must obtain a federal EIN.

### **Tax Liability**

For federal tax purposes, corporations are designated as:

- C Corporations
- C Corporations with a Subchapter S Election

**C Corporations** file a separate corporation tax returns and pay their own taxes to the Internal Revenue Service. Owners and employees of C corporations individually pay taxes on the salaries, bonuses, and dividends they receive from the corporation.

**Corporations with a Subchapter S Election** file information returns with the Internal Revenue Service and individual shareholders pay taxes on their share of profits much like partners in a partnership. Corporations also pay state income taxes.

### **Risk Management**

Generally, a shareholder or officer is not personally responsible for the debts and court judgments of the corporation. When a corporation borrows money, however, the bank may ask for personal guarantees from the corporate officers. Shareholders are not personally responsible for each other's actions on behalf of the corporation. Individuals are responsible for their own negligent acts.

**Limited Liability Company** A limited liability company (LLC) is a business entity that attempts to limit the personal liability of owners. A LLC has some characteristics of partnerships and some characteristics of corporations.

### **Formation**

*Articles of Organization* are filed with the State of Alaska. The owners of a LLC are called members. LLCs are managed by members or by managers who may or may not be members. A single owner can form a LLC.

### **Tax Liability**

A LLC with two or more members is classified as a partnership for federal income tax purposes unless it elects to be taxed as a corporation, or was formed before 1997 and was taxed as a corporation. A LLC with one member is not treated as a separate entity for income tax purposes unless it elects to be taxed as a corporation.

### **Risk Management**

Generally, a member of a LLC is only personally liable to the extent of the capital invested; their personal assets are protected.

If you can't decide what type of entity to form, please consult a tax accountant or an attorney.

For more information on forming partnerships, corporations, or LLCs, contact the Corporations Section of the Department of Commerce, Community and Economic Development — Division of Corporations, Business and Professional Licensing at

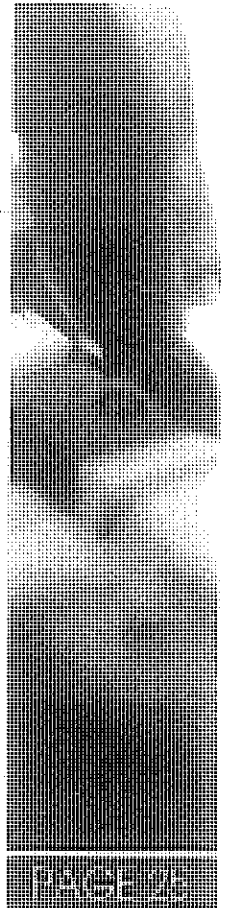
P.O. Box 110808, Juneau, AK 99811-0808

Phone (907) 465-2530

Fax (907) 465-3257

<http://www.commerce.state.ak.us/occ/>

# Consider legal protections for your business



Starting Your  
Small Business

Summer-Winter  
2006

## Register Your Business' Name

The name you use for your business may become an asset – the business name becomes associated with the high quality of goods or services that you provide, and another business owner may want to use that reputation for his own benefit. Registering your business name prevents other businesses around the state from using the same name.

A business name may be reserved while you are preparing to start your business. A business name reservation is valid for 120 days.

For corporations, limited liability companies, and other business organizations certified with the State of Alaska, the business name is automatically registered when the form of business is certified.

A business name is eligible to be registered if it can be distinguished from other business names, if it is not misleading, and if it is not vulgar. Before reserving or registering a business name, make sure the name is available and will not be misleading or offensive.

Registration of a business name is valid for five years, and can be renewed.

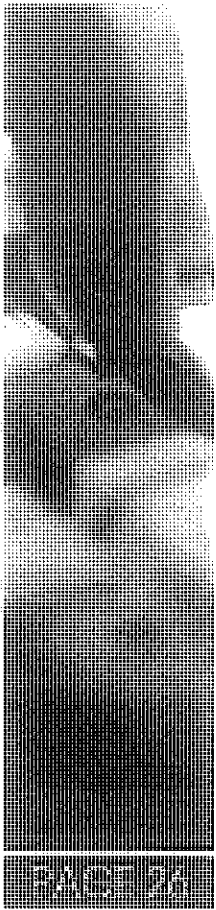
For more information, or to request applications, contact: Corporations Section  
Division of Corporations, Business and Professional Licensing Department of Commerce,  
Community, and Economic Development P.O. Box 110808  
Juneau, AK 99811  
Phone (907) 465-2530  
Fax (907) 465-3257  
<http://www.commerce.state.ak.us/bsc/register.html>

## Trademark

A state trademark can be obtained for a name, logo, or design that identifies your product. A service mark can be registered to identify a service. A mark cannot be registered if it is in any way deceptive or misleading. The trademark or service mark registration is valid for five years, and then can be renewed. For more information, or for an application, contact:

**Corporations Section**  
**Division of Corporations, Business and Professional Licensing**  
**Department of Commerce, Community, and Economic Development**  
P.O. Box 110808  
Juneau, AK 99811  
Phone (907) 465-2530  
Fax (907) 465-3257  
<http://www.commerce.state.ak.us/bsc/tmark.htm>

Federal trademark protection is also available, from the U.S. Patent and Trademark Office (see Patent, below).



Starting Your  
Small Business

Summer-Winter  
2006

## Copyright

A copyright is a federal protection against the unauthorized use of one's artwork, music, photography, written works, and other intellectual property. To be eligible for copyright protection, the work must be written or recorded in some way, and it must contain original work.

Copyright is secured automatically when the work becomes "fixed," that is, written or recorded. Copyright notice provides additional protection, in the event the owner must defend the copyright. Copyright notice includes three elements:

- The symbol © or the word "copyright."
- The year in which the work was first published.
- The name of the owner of the copyright. For example, "Copyright 2001 by John Doe"

Copyrights can also be registered with the Copyright Office of the Library of Congress. For more information, contact:

### **Library of Congress**

#### **Copyright Office**

101 Independence Avenue, S.E. Washington, D.C. 20559-6000

Phone (202) 707-3000 (Public Information Office)

<http://www.copyright.gov>

## Patent

A patent is a federal protection against the unauthorized use of one's invention, provided the invention contains new ideas or unique applications. A patent grants "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States.

Patents must be applied for through the U.S. Patent and Trademark Office. A successful application requires an understanding of patent law and the procedures of the U.S. Patent and Trademark Office. For assistance with the application, an inventor may hire a patent attorney or patent agent who has been registered with the U.S. Patent and Trademark Office.

The Patent Assistance Center provides general information about patents, and can assist with filling out forms. Contact:

### **General Information Services Division**

**U.S. Patent and Trademark Office Crystal Plaza 3, Room 2C02**

P.O. Box 1450

Washington, D.C. 22313-1450

Phone 1-800-786-9199

<http://www.uspto.gov>

# Know the requirements for employers

Determine if he/she is an employee or an independent contractor

## Withholding Employee Taxes

You are an employer if you have people who perform services for you, and you **“can control what will be done and how it will be done.”** Example, you have an administrative assistant that types, files, writes letters, answers phones, runs errands, takes receipts to the bookkeeper. You control this assistant’s hours of work, dress code, manner, customer service, performance, and have a policy that she/he cannot make personal calls on the office phone.

You have an independent contractor if that person has his/her own business license, insurance, entered into a contract for services or products which you or your staff DO NOT perform as a general rule, and **you have no control over this person’s time, appearance, manner, customer service, performance, etc.** Example, the bookkeeper across town to whom your administrative assistant delivers your daily receipts to enter into your books. (If you don’t like this bookkeeper’s performance you can’t supervise her to make it change, however you can look for another bookkeeper!).

As an employer you have the responsibilities to withhold and pay taxes for your employees. These responsibilities cannot be avoided simply by calling an employee “contract labor” or “independent contractor.” The employee-employer relationship is established by the nature of the workplace relationship, not by the job title used.

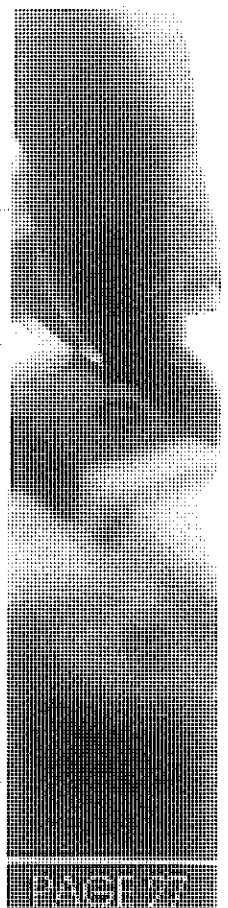
Under Alaska law, for purposes of determining an employer’s responsibility to withhold, report, and pay unemployment taxes, all three of the following conditions must be met for a worker to be considered an independent contractor rather than an employee:

1. be free from direction and control.
2. not be in the employer’s usual course or place of business.
3. be customarily working in an independent trade or business of the same nature.

However, if the services performed are outside the employer’s trade or business but the worker is paid \$50 or more during a calendar quarter and the service is performed by a worker who is regularly employed to do this work, then the worker must be covered for state unemployment.

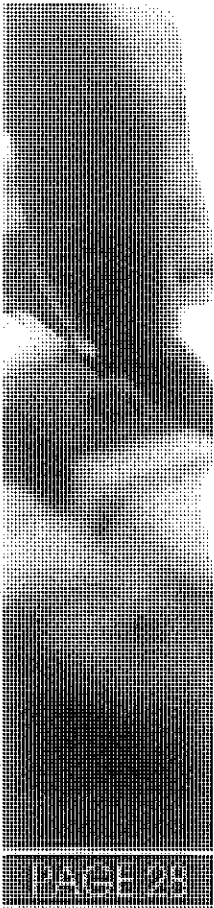
The Internal Revenue Service (IRS), for purposes of determining an employer’s responsibility to withhold, report, and pay income tax withholding, social security, Medicare, and federal unemployment tax, considers the following factors:

	EMPLOYEE	INDEPENDENT CONTRACTOR
BEHAVIORAL CONTROL	May be trained to perform work a certain way. May be given specific work assignments. May be provided with tools, equipment, or supplies.	May complete the work by his own methods. May hire others to complete parts of a project. May be required to use his own equipment or tools.
	May be hired for an unspecified period of time. May be doing work that is a key aspect of the regular business activity, such as selling merchandise.	May provide similar services for other businesses. May be hired for the length of a particular project.
FINANCIAL CONTROL	May be paid an hourly wage or salary.	May make either a profit or a loss on the work performed.
RELATIONSHIP	May have an employment contract.	May have a services contract with the business that specifies the work to be completed



Starting Your  
Small Business

Summer-Winter  
2006



Starting Your  
Small Business

Summer-Winter  
2006

Employers are subject to a variety of state and federal requirements. To become familiar with employer requirements, request copies of the following publications:

IRS Publication 15 – Circular E, Employer's Tax Guide

Call the Internal Revenue Service at 1-800-829-3676 or go to <http://www.irs.gov>

## IRS Resources

**Employment Tax for Small Business** – If you have employees, you are responsible for Federal Income Tax Withholding, Social Security and Medicare taxes and Federal Unemployment Tax Act (FUTA). <http://www.irs.gov/businesses/small/content/0,,id=98942,00.html>

**Withholding Calculator** – This easy-to-use calculator can help you figure your employees' Federal Income Tax Withholding so you can withhold the correct amount from their pay. <http://www.irs.gov/individuals/article/0,,id=96196,00.html>

**Contact Your Local IRS Office** – IRS Taxpayer Assistance Centers are your one-stop resource for face-to-face tax help and solutions to tax problems, every business day. <http://www.irs.gov/localcontacts/index.html>

**The Taxpayer Advocate's Office** – The Taxpayer Advocate is an independent organization within the IRS. They help taxpayers resolve problems with the IRS and recommend changes that will prevent the problems. <http://www.irs.gov/advocate/index.html>

**On-Line Classroom** – View a streaming video of an IRS Small Business Workshop, take an IRS course or complete an online self-directed version of a workshop taught live around the country. <http://www.irs.gov/businesses/small/article/0,,id=97726,00.html>

**Small Business Tax Workshops** – Throughout the country various non-profit and government organizations offer small business workshops. <http://www.irs.gov/businesses/small/article/0,,id=99202,00.html>

**Small Business Resources** – This section offers links to a broad range of resources across federal and state agencies. <http://www.irs.gov/businesses/small/content/0,,id=98864,00.html>

**Small Business Products Online Ordering** – Looking for a tool to help you meet your tax requirements? Choose from our free products, developed especially for the Small Business/Self-Employed person, and obtain updated information on existing products. <http://www.irs.gov/businesses/small/article/0,,id=101169,00.html>

**Industries and Professions Index Page** – Specific tax information for Agriculture, Automotive, Construction, Entertainment, Fishing, Gas Retailers, Manufacturing, Real Estate, Restaurants, Tax Professionals, and other industries. <http://www.irs.gov/businesses/small/industries/index.html>

If you don't have access to the Internet, call the IRS toll free at 1(800) 829-3676.

## Alaska Employment Security Tax Handbook

Request from:

Alaska Department of Labor and Workforce Development

Employment Security Tax

P.O. Box 25506, Juneau, AK 99802-5506

Phone (907) 465-2757 or 1-888-448-2937 toll free

Fax (907) 465-2374

[http://www.labor.state.ak.us/estax/forms/toc\\_forms.htm](http://www.labor.state.ak.us/estax/forms/toc_forms.htm)

When you contact Employment Security, ask to be registered as an employer. Most employers are required to withhold, report, and pay employment taxes, which include income tax, social security (FICA), Medicare, and state and federal unemployment taxes.

An Employer Identification Number (EIN) must be used in reporting and paying employment taxes. To apply for an EIN, call the IRS at 1-800-829-3676 and ask for Form SS-4, Application for Employer Identification Number or go to <http://www.irs.gov>

Employers are required to make sure that their employees are eligible to work in the United States. The employer must have a completed Form I-9, Employment Eligibility Verification on file for each employee. Request the Form I-9 from the Immigration and Naturalization Service (INS) by calling 1-800-870-3676 or go to <http://uscis.gov/graphics/formsfee/forms/i-9.htm> Employers also can contact the [www.socialsecurity.gov/employer](http://www.socialsecurity.gov/employer) for SSN verification for employees and can file W-2 Forms on-line.

Employers are also required to have on file for each employee a completed IRS Form W-4, Employee's Withholding Allowance Certificate, available from the IRS at 1-800-829-3676. The Form W-4 provides the information the employer needs to calculate income tax withholding for the employee.

Employers are required to provide a written hiring agreement at the time an employee is hired. The written hiring agreement must state: the rate of pay (including benefits), the day of pay, and the place of pay.

Written notification must also be provided of any changes. The Department of Labor's Wage and Hour Administration can review your company's hiring agreement and suggest changes, if necessary.

### **Wage and Hour Administration**

Anchorage 3301 Eagle Street, Suite 301, Anchorage, AK 99503  
Phone (907) 269-4900 Fax (907) 269-4915

Fairbanks 675 7th Avenue, Station J Fairbanks, AK 99701  
Phone (907) 451-2886 Fax (907) 451-2885

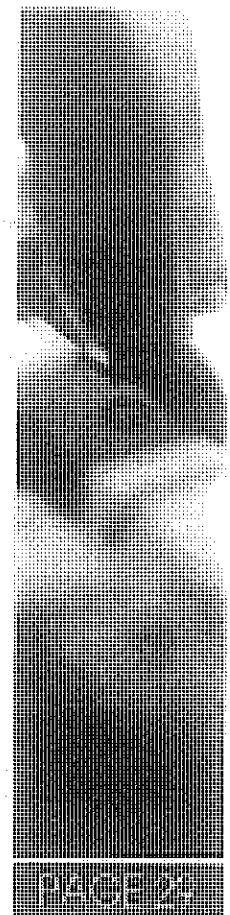
Juneau 1111 W. 8th Street, Room 302, Juneau, AK 99801  
Phone (907) 465-4842 Fax (907) 465-3584

Maintain accurate payroll records, following the instructions in the IRS Publication 15 and the Alaska Employment Security Tax Handbook for calculating, withholding, reporting, and paying employment taxes. Reports to be filed on a quarterly basis include:

IRS Form 941, Employer's Quarterly Federal Tax Return, for reporting income tax withholding, social security, and Medicare. Social security and Medicare taxes are withheld from employees' wages, and a matching amount is also paid by the employer.

Contribution Reports, for reporting state unemployment tax. A portion of the state unemployment tax is withheld from wages, and a portion is paid by the employer. The executive officers of a corporation are generally excluded from state unemployment coverage, but if coverage is elected it applies to all officers as a group. Coverage cannot be elected by sole proprietors, partners, or managing members of a LLC. Coverage is also excluded for certain family members working for a sole proprietor.

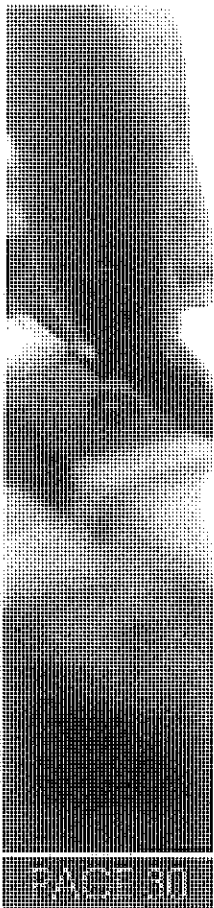
The income taxes withheld and both the employee and employer portions of social security and Medicare taxes are deposited at an authorized financial institution using a Form 8109, Federal Tax Deposit Coupon, which is available from the IRS.



Starting Your  
Small Business

Summer-Winter  
2006





Starting Your  
Small Business

Summer-Winter  
2006

During your first year in business, if the amount owed for the quarter totals less than \$2,500, payment can be made with the Form 941.

In addition, at the end of the year, a Form 940 or 940-EZ, Employer's Annual Federal Unemployment Tax Return, is filed to report federal unemployment tax. Federal unemployment tax is also referred to as FUTA. It is paid by the employer, with no portion withheld from employee wages.

Again, be sure to obtain copies of IRS Publication 15 – Circular E, Employer's Tax Guide and Alaska Employment Security Tax Handbook.

### Workers' Compensation Insurance

Workers' compensation is a program that requires employers to pay medical costs and a portion of lost wages for employees who are injured or become ill because of work conditions. The Alaska Workers' Compensation Act requires each employer having one or more employees in Alaska to obtain workers' compensation insurance, unless the employer has been approved as a self-insurer. Workers who are not required to be covered under a workers' compensation policy include high school students in work study programs, and participants in the Alaska temporary assistance program. The business owners may exempt themselves from coverage.

Workers' compensation insurance can be purchased from insurance companies. If an employer is not able to obtain coverage from a commercial insurance carrier, they can purchase insurance through Alaska's Assigned Risk Pool. The cost of the coverage is based on the amount of the employer's payroll, the level of risk for workers, and the employer's history of claims.

Employers must provide proof of workers' compensation insurance to the Division of Workers' Compensation, which is usually submitted by the insurance company.

For more information, contact:  
**Division of Workers' Compensation**  
**Department of Labor and Workforce Development**  
P.O. Box 25512, Juneau, AK 99802  
Phone (907) 465-2790  
Fax (907) 465-2797  
<http://labor.state.ak.us/wc/home.htm>

### Workplace Posters

The following posters are required to be posted in your workplace:

**Employee Polygraph Protection Act**  
Available from:  
**Employment Standards Administration**  
**U.S. Department of Labor**  
200 Constitution Avenue NW Washington, D.C. 20210  
1-866-4USWAGE  
<http://www.dol.gov/esa/regs/compliance/posters/eppa.htm>

**Notice to Employees – Federal Minimum Wage**

Available from:

**Wage and Hour Division**

**U.S. Department of Labor**

200 Constitution Ave. NW Washington, D.C. 20210

Toll free 1-866-4USWAGE

<http://www.dol.gov/esa/regs/compliance/posters/flsa.htm>

**Your Rights Under the Family & Medical Leave Act of 1993**

Available from:

**Wage & Hour District Office**

**U.S. Department of Labor**

1111 3rd Avenue, Suite 755, Seattle, WA 98101-3212

Toll free 1-866-487-2365

<http://www.dol.gov/esa/regs/compliance/posters/fmla.htm>

**Employer's Notice of Insurance**

Provided by your insurance company.

**Equal Employment Opportunity is the Law**

Available from:

**EEOC Office of Communication**

1801 L Street N.W. Washington, D.C. 20507

Phone 1-800-669-3362 or 1-800-435-7232

<http://www.dol.gov/esa/regs/compliance/posters/eeo.htm>

**The Alaska Human Rights Law & Federal Law Prohibit Sexual Harassment**

Available from:

**Alaska State Commission for Human Rights**

800 A Street, Suite 204, Anchorage, AK 99501

Phone (907) 274-4692 or 1-800-478-4692

[http://www.gov.state.ak.us/aschr/harassment\\_poster.pdf](http://www.gov.state.ak.us/aschr/harassment_poster.pdf)

**Summary of Alaska Wage & Hour Act**

Available from:

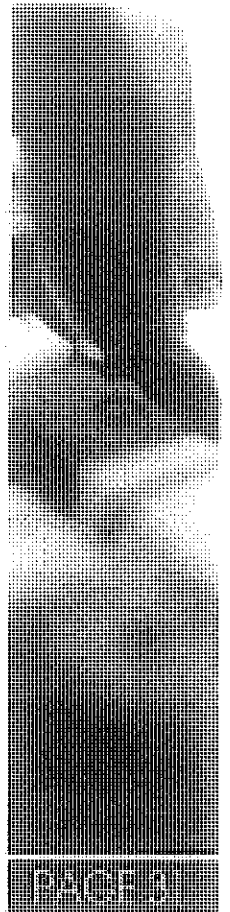
**Wage & Hour Administration**

**Department of Labor & Workforce Development**

P.O. Box 21149, Juneau, AK 99802-1149

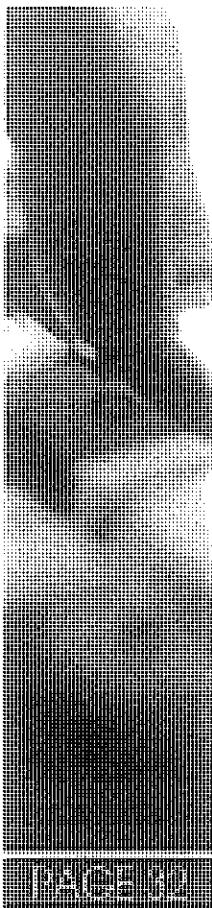
Phone (907) 465-4842

<http://labor.state.ak.us/lss/forms/sum-wh-act.pdf>



Starting Your  
Small Business

Summer-Winter  
2006



Starting Your  
Small Business

Summer-Winter  
2006

### Emergency Information

Available from:

**Labor Standards & Safety Division**  
**Department of Labor & Workforce Development**  
P.O. Box 21149, Juneau, AK 99802-1149  
Phone (907) 465-4855 or 1-800-770-4940  
<http://labor.state.ak.us/lss/forms/EmergInfo.pdf>

### It's Your Right to Know/Safety and Health Protection on the Job

Available from:

**Labor Standards & Safety Division**  
**Department of Labor & Workforce Development**  
P.O. Box 21149, Juneau, AK 99802-1149  
Phone (907) 465-4855 or 1-800-770-4940  
<http://labor.state.ak.us/lss/forms/right-to-know.pdf>

### Notice to Employees – Unemployment Insurance

Available from:

**Employment Security Division**  
**Department of Labor & Workforce Development**  
P.O. Box 25509, Juneau, AK 99802-5509  
Phone (907) 465-1849  
<http://labor.state.ak.us/lss/forms/1012.pdf>

### Uniformed Services Employment and Reemployment Rights Act

Available from:

**Veterans' Employment and Training Service**  
**U.S. Department of Labor**  
200 Constitution Avenue, NW Washington, D.C. 20210  
Phone 1-866-4USADOL  
<http://dol.gov/vets/programs/userra/poster.htm>

### You Have a Right to a Safe and Healthful Workplace

Available from:

**Occupational Safety & Health Administration**  
**U.S. Department of Labor**  
OSHA Publications  
P.O. Box 37535, Washington, D.C. 20013-7535  
Phone (202) 693-1888 Fax (202) 693-2498  
<http://www.osha.gov/pls/publications/pubindex.list>

For more information about employment posters, contact:

**Alaska Department of Labor and Workforce Development**  
**Division of Labor Standards and Safety**  
1111 West 8th Street, Room 304, Juneau, AK 99801  
Phone (907) 465-4855 or 1-800-770-4940  
<http://labor.state.ak.us/lss/posters.htm>

# Know your business taxes

Please note that this checklist covers the basic requirements common to most businesses.  
Be sure to check for additional requirements specific to your location or industry.

## Local Municipal or Borough Taxes

Check with your local municipal government for information on sales taxes, personal property taxes, or other taxes related to your business.

## State Taxes

Every corporation doing business in the state of Alaska must file an *Alaska Corporation Net Income Tax Return*. A limited liability company must file an Alaska return consistent with its federal tax status — if it is treated as a corporation for federal tax purposes, it is also treated as a corporation for state tax purposes.

The tax rate varies with the amount of taxable income. The tax is due to be paid two and a half months after the end of the corporation's tax year, and the tax return must be filed thirty days after the due date of the federal income tax return.

For more information, contact:

### **Department of Revenue, Tax Division**

P.O. Box 110420, Juneau, AK 99811

Phone (907) 465-2320 Fax (907) 465-2375

<http://www.tax.state.ak.us/programs/corporate/index.asp>

## Federal Taxes

Federal taxes will vary depending on the legal form of your business and the type of business activity — consult your tax accountant!

For a sole proprietorship, the business income and expenses will be reported on Schedule C of the business owner's Form 1040. The earnings of the business are then taxed at the owner's tax rate.

For a partnership, the business income and expenses will be reported on the partnership's Form 1065, with a Schedule K-1 for each partner's share of income and expenses. Each partner then includes his Schedule K-1 information on his own tax return and pays taxes on his share of the partnership's earnings.

For a corporation, the business income and expenses will be reported on the corporation's Form 1120, and the corporation will pay taxes on its earnings. For a corporation that has elected a Subchapter S, a Form 1120S is used to report the corporation's income and expenses, but no income tax is paid by the corporation. Each owner reports his share of income and expenses on his own tax return and pays taxes on his share of earnings.

For a limited liability company, reporting requirements and tax liability are based on whether the LLC has elected to be treated a sole proprietorship, partnership, or corporation.

For more information, contact: Phone 1-800-829-1040 (to speak to an IRS representative)

### **Internal Revenue Service**

949 East 36th Avenue, Anchorage, AK 99508

Phone (907) 271-6391 (for recorded information or to leave a message)

<http://www.irs.gov>

Request a copy of the printed or CD format *Publication 583, Starting a Business and Keeping Records* by calling 1-800-829-3676.



PAGE 33

Starting Your  
Small Business

Summer-Winter  
2006

# Plan your business in writing

## The Business Plan

### The Cover Page

Name of the business, logo, owner's name(s), address, phone, email, and website (if you have one), name of who prepared the Business Plan and the date it was prepared.

### Executive Summary

Even though this is your second page after your cover page, you write this summary *after* you've completed writing your business plan and can summarize in a nutshell your *entire plan*. It includes a bit of history of your business, your mission statement, a summary of the major points of the business plan, and a financing request, if applicable.

### Mission Statement

Whatever your reason is for going into business, it should be expressed in your mission statement so that you can stay focused on pursuing your goals, explain your values to your employees, and tell your customers the way in which you will serve their needs. Keep your mission short, sweet and effective! Say more with an economy of words.

Example:

***To make a fine loaf of bread – Great Harvest Bread, Anchorage, AK***

***No one gets hurt – Alyeska Pipeline Employee Safety, Valdez, AK***

***Promoting a healthy economy and strong communities. – State of Alaska***

**Department of Commerce, Community and Economic Development**

***We sell, sell, and sell – Consumers Wholesale, Bronx, NY***

Remember that behind your stated mission statement is also your commitment to profitability—that which allows you to stay in business. Your mission statement explains your "unique selling proposition." It describes what success means to you.

Have your mission statement printed, written in calligraphy, quilted, done in watercolors, etched in copper, or carved in granite. Place it in the most visible place in your storefront, home office, website, coffee kiosk, or Anchorage Saturday Market booth. Read it often, but most especially during those moments when you are thinking you want to close your business permanently and pack it in.

### The Business' Legal Structure

Consider your own needs and circumstances when choosing a form of business.

- Sole Proprietorship
- General Partnership
- Corporation (C)
- Corporation (Subchapter S Election)
- Limited Liability Company

If you can't decide what type of entity to form, please consult a tax accountant or an attorney.

Starting Your  
Small Business

Summer-Winter  
2006

For more information on forming partnerships, corporations, or LLCs, contact the Corporations Section of the Department of Commerce, Community and Economic Development — Division of Corporations, Business and Professional Licensing at

P.O. Box 110808

Juneau, AK 99811-0808

Phone (907) 465-2530

Fax (907) 465-3257

<http://www.commerce.state.ak.us/oc/>

## Description of the business

- What goods or services will you offer?
- How will you produce or obtain those goods?
- Or, How will your services be delivered?
- How will you set prices for your goods or services?
- Where will the business be located?
- What is the status of any required licenses, permits, patents, or trademarks?

## Market research

(Which you did when you tested your idea.) Explain why the market is just dying for your concept.)

## Marketing plan

Why you are naming your product Blah a Blah Watch, and how you are packaging it, selling it, and promoting it in order to get sales. How you will advertise, promote, announce your product so that it sells.

You want to address how you will meet a changing local and global market, how you will compete when a major competitor surfaces in your vicinity or field, how you will manage when costs rise, etc.

## The Four Ps

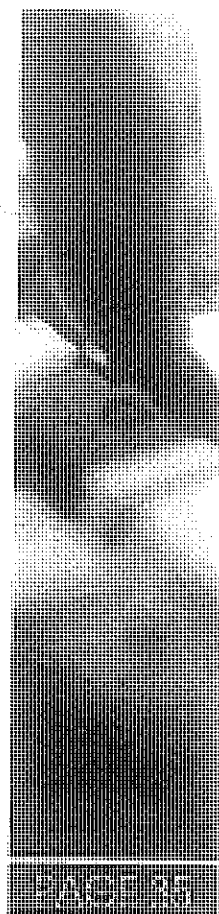
The marketing plan pulls together all the elements of your marketing. In short, it should cover what is known as the marketing mix, or the 4 Ps of Marketing:

**Product/service** Precisely what you have to offer to your customer — not just the item you are selling but the need you will fill or problem you will solve.

**Place** Where the business will be located to best serve the customers' needs and how much traffic passes that location, or what method of distribution you will use to deliver your product or service.

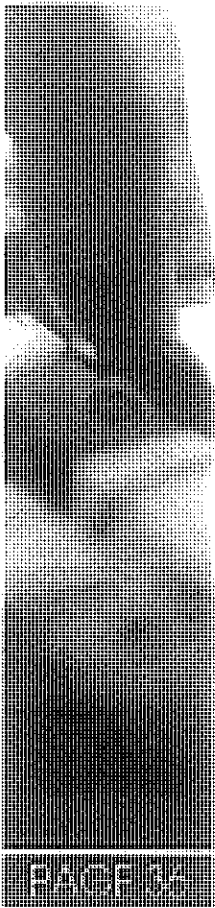
**Promotion** All the things you will do to communicate with your customers, including how you will use various media such as fliers, direct mail, internet, and radio.

**Price** How much you will charge, how that compares to the competition, what methods you will use to set prices, and what role price plays in your customer's buying decision.



Starting Your  
Small Business

Summer-Winter  
2006



Starting Your  
Small Business

Summer-Winter  
2006

## Management

- What qualifications do you have for running the business?
- Which responsibilities will you hire staff to do?
- How will you recruit and train employees, and what wages and benefits will you offer?

## Disaster Preparedness Plan

Think long-range. Plan ahead and make contingencies for significant events such as recovering from a fire, earthquake or other emergencies that may damage your business. There are many disaster plan templates and guides available from your municipality and from the State of Alaska Department of Military and Veterans Affairs. These consider acts of God and terrorism.

## Business Exit Strategy

Most likely, at the moment in which the light bulb lit up with your new idea, you never gave a thought about how you'd get out of the business, someday. However, try and visualize this in terms of whether or not you want to be doing this business for the rest of your living days; whether you want to retire to a tropical island after you've made money and can sell a successful business; whether you want to give your business to your church or a non-profit organization as a way to raise funds. Whichever of these is you, you need to plan what it will take to achieve that goal through your business.

If you want to remain behind the counter till you are unable, then you need to decide whether you do or don't want your business to continue if you can't work in it, anymore. If you want the business to close, you have to decide whether you or someone else will sell, donate or distribute the assets, pays off all the vendors, fulfills all the remaining orders, You have to device a management succession plan so that the person to whom you hand the business will be able to pick up where you left off. If you are thinking of selling your business at some point, consider the value you'd like for your business to have, and what it will take to get it there. An exit strategy an also help you see that you aspire to retire to a tropical paradise once you are financially independent from the sale of the business.

## Financial Statements

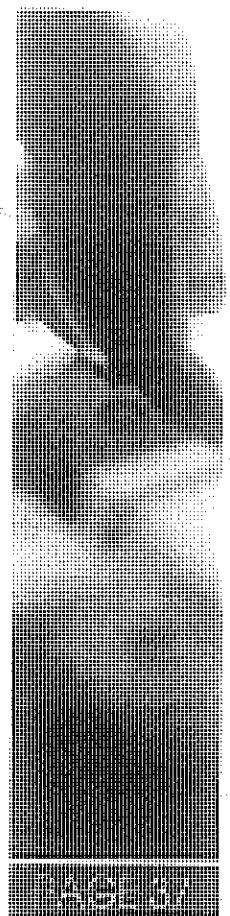
No matter how wonderful your business concept is, or how eloquent your written business plan reads, it is your financial statements that speak volumes about your concept and your grasp of the business.

- Start-up and operating budgets.
- Profit and loss projections, monthly for the first year and quarterly for the second and third years.
- Cash flow projections, monthly for the first year and quarterly for the second and third years.
- Balance sheet at start-up, and projected for the end of the first, second, and third years.
- Explanation of start up costs, and loan request, if any.

## Additional Documents

The business plan will vary in size based on the complexity of your business, and may have a number of attachments. The following attachments are generally required when the business plan is part of a loan application:

- Resumes for owners and key staff.
- Tax returns and personal financial statements for all owners.
- Letters of intent from prospective suppliers or customers.
- Copies of leases, deeds, contracts, or other legal documents.
- Anything else to support your plan.



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## Forms and Templates

### Outline of a marketing plan

#### 1. Objectives

Where do you want to go? What business goals, objectives, targets, or benchmarks will you accomplish?

#### 2. Situation Analysis

Where are you now? Describe your customers and competitors, and the market environment in which you will operate – the legal, political, environmental, cultural, demographic, and technological factors that could affect your business.

#### 3. Strategies

How will you get there? Explain why customers will buy from you and not from your competition, and how you will communicate to your customers your ability to meet their needs.

#### 4. Implementation Plan

Prepare a schedule of all the marketing activities for the coming year, or longer, including such marketing approaches as seasonal promotions, networking activities, and events to be sponsored. The action plan should also explain how you will evaluate the success of your various marketing efforts.

#### 5. Budget

Prepare a budget of the cost of carrying out the action plan, as well as the cost of ongoing marketing activities and supplies such as business cards and advertising specialties. Be sure to include a way to evaluate the cost-effectiveness of your marketing efforts.

Remember – marketing is an investment to increase sales!

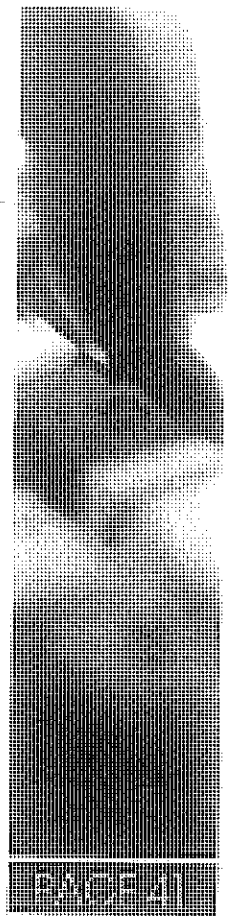
BALANCE SHEET FOR Business Name:

Current  
Date:

ASSETS		% of Assets	LIABILITIES		% of Liabilities
<b>Current Assets (12mos or less)</b>			<b>Current Liabilities (12mos or less)</b>		
Cash	\$ _____		Accounts Payable	\$ _____	
Petty Cash	\$ _____		Notes Payable	\$ _____	
Accounts Receivable	\$ _____		Interest Payable	\$ _____	
Inventory	\$ _____		Tax Accruals		
Short-Term Investments	\$ _____		Federal Income Tax	\$ _____	
Prepaid Expenses	\$ _____		Self-Employment Tax	\$ _____	
<b>Long-Term Investments</b>	\$ _____		State Income Tax	\$ _____	
<b>Fixed Assets</b>			Sales Tax Accrual	\$ _____	
Land (valued at cost)	\$ _____		Property Tax	\$ _____	
Buildings	\$ _____ 0		Payroll Accrual	\$ _____	
1. Cost	_____		<b>Long-Term Liabilities</b>		
2. Less Acc. Depr.	_____		Notes Payable to Investors	\$ _____	
Improvements	\$ _____ 0		Notes Payable Others	\$ _____	
1. Cost	_____				
2. Less Acc. Depr.	_____				
Equipment	\$ _____ 0		<b>TOTAL LIABILITIES</b>	\$ _____ 0	100.00%
1. Cost	_____				
2. Less Acc. Depr.	_____				
Furniture	\$ _____ 0		<b>NET WORTH (EQUITY)</b>		% of Net Worth
1. Cost	_____		Proprietorship	\$ _____	
2. Less Acc. Depr.	_____		or		
Autos/Vehicles	\$ _____ 0		Partnership		
1. Cost	_____		1. (Name 1), ___% Equity	\$ _____	
2. Less Acc. Depr.	_____		2. (Name 2), ___% Equity	\$ _____	
Other Assets			or		
1.	\$ _____		Corporation		
2.	\$ _____		Capital Stock	\$ _____	
			Surplus Paid In	\$ _____	
			Retained Earnings	\$ _____	
<b>TOTAL ASSETS</b>	\$ _____ 0	100.00%	<b>TOTAL NET WORTH</b>	\$ _____ 0	100.00%
			Assets - Liabilities = Net Worth and Liabilities + Equity = Total Assets		

## Start-Up and Operating Costs

	Costs Every Month
Leases	\$
Utilities	\$
Phone + Cell Hookup	\$
Insurance/Bond	\$
Pre-opening Advertising	\$
Grand Opening Promotional Event	\$
Manufacturing Materials	\$
Office and Misc. Supplies	\$
Equipment (Leasing/Purchase)	\$
Loan Fees	\$
Taxes	\$
Travel/Training	\$
Permits and Licenses	\$
Credit Card setup fees	\$
Printing	\$



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## Explanation of Start-Up Costs and Financing Needs

### Example of Break-Even Analysis

Pat is known for making great home-made pizza. He's decided to start a take-out pizza place in his community of six hundred residents. There's an unused commercial kitchen he can rent for his business. Pat wants to see how profitable this might be.

First he estimates the monthly fixed costs:

Rent	\$450.00
Utilities (electric, phone, heating fuel)	200.00
Insurance	50.00
Advertising (fliers)	15.00
Supplies	75.00
Office expenses	25.00
Owner's salary	<u>1,000.00</u>
<b>Total monthly fixed costs</b>	<b>\$1,815.00</b>

Next he estimates the variable cost per pizza. Pat's main product will be a large pepperoni pizza. From making pizza at home, he can estimate the costs per pizza:

Pizza dough, sauce, cheese, pepperoni	\$6.00
Pizza box	<u>+ .50</u>
<b>Total variable cost per pizza</b>	<b>\$6.50</b>

Based on the variable cost per pizza of \$6.50, Pat thinks a reasonable selling price would be \$15.00. His neighbors said they would pay that price.

To calculate the break-even point, Pat first calculates "contribution," the amount of money from the sale of each pizza that is available to cover the fixed costs:

Selling price per pizza	\$15.00
Total variable cost per pizza	<u>- 6.50</u>
<b>Contribution per pizza</b>	<b>\$8.50</b>

Then, the contribution is converted to a "contribution margin" by dividing the contribution by the selling price:

Contribution per pizza	\$8.50
divided by Selling price per pizza	<u>15.00</u>
<b>Contribution margin</b>	<b>.57</b>

The amount of sales needed per month to break even is calculated by taking the total fixed costs for the month and dividing by the contribution margin:

Total fixed monthly costs	<u>\$1,815.00</u>
divided by Contribution margin	.57
<b>Monthly sales required to break even</b>	<b>\$3,184.00</b>

Then Pat calculates the number of pizzas he must sell each month to break even, by taking the monthly sales required to break even and dividing by the selling price per pizza:

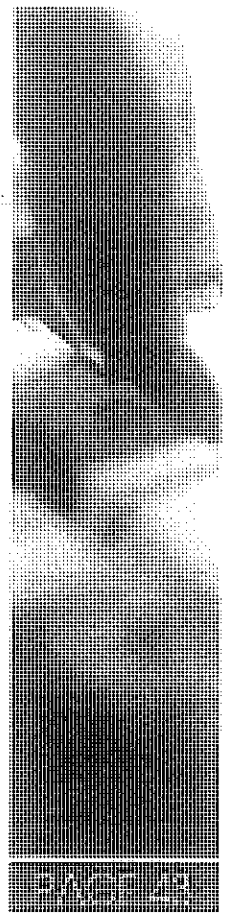
Monthly sales required to break even	<u>\$3,184.00</u>
divided by Selling price per pizza	15.00
<b>Monthly pizzas to sell to break even</b>	<b>\$212</b>

212 is the number of pizzas Pat must sell every month, at \$15 per pizza, to break even — to cover the fixed and variable costs. Pat's business isn't profitable until he sells his 213th pizza each month, and that's assuming that he has accurately estimated all his costs.

To convert to a daily sales target, let's assume Pat is open six days a week for four weeks every month, or 24 days in a month:

Monthly pizzas to sell to break even	<u>212</u>
divided by Days of pizza-selling	24
<b>Daily pizzas to sell to break even</b>	<b>9</b>

Is it reasonable to expect to sell nine pizzas every day? And what happens if they're all ordered at the same time of day? Will Pat need to hire an assistant? Will he need to buy a bigger pizza oven? If so, that changes the costs and another break-even analysis is needed.



### Three-Year Profit & Loss Projection

Percentages = % of Sales/Revenues  Updated: _____ 2006	Year 1: 2006		Year 2: 2007		Year 3: 2008		Total: 3 Years	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
<b>INCOME</b>								
<b>1. SALES/REVENUES</b>	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
Product A	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
Product B		0.00%		0.00%		0.00%	0	0.00%
Product C		0.00%						
Product D		0.00%						
Product E		0.00%						
<b>2. GROSS PROFIT ON SALES</b>	10,000	100.00%	10,500	100.00%	11,025	100.00%	31,525	100.00%
<b>EXPENSES</b>								
<b>1. VARIABLE</b>	1,000	10.00%	1,050	10.00%	1,103	10.00%	2,050	6.50%
Materials	1,000	10.00%	1,050	10.00%	1,103	10.00%	2,050	6.50%
Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Equipment/Furniture		0.00%	0	0.00%	0	0.00%	0	0.00%
Seasonal Items		0.00%	0	0.00%	0	0.00%	0	0.00%
Activities Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Staff Training Expense		0.00%	0	0.00%	0	0.00%	0	0.00%
<b>2. FIXED</b>	0	0.00%	800	7.62%	840	7.62%	1,640	5.20%
Rent or Mortgage	1,000	10.00%	1,050	10.00%	1,103	10.00%	3,153	10.00%
Utilities		0.00%	0	0.00%	0	0.00%	0	0.00%
Telephone		0.00%	0	0.00%	0	0.00%	0	0.00%
Office Supplies		0.00%	0	0.00%	0	0.00%	0	0.00%
Postage		0.00%	0	0.00%	0	0.00%	0	0.00%
Equip/Auto repairs/maint		0.00%	0	0.00%	0	0.00%	0	0.00%
Insurance		0.00%	0	0.00%	0	0.00%	0	0.00%
Loan Payments		0.00%	0	0.00%	0	0.00%	0	0.00%
Marketing/Advertising		0.00%	0	0.00%	0	0.00%	0	0.00%
Subscription/Dues		0.00%	0	0.00%	0	0.00%	0	0.00%
Legal/Accounting		0.00%	0	0.00%	0	0.00%	0	0.00%
Auto:Fuel		0.00%	0	0.00%	0	0.00%	0	0.00%
Salaries		0.00%	0	0.00%	0	0.00%	0	0.00%
7.5% Withhold Match		0.00%	0	0.00%	0	0.00%	0	0.00%
Owners Compensation		0.00%	0	0.00%	0	0.00%	0	0.00%
Depreciation (Office Equipment)		0.00%	800	7.62%	840	7.62%	1,640	5.20%
<b>TOTAL OPERATING EXPENSES (1+2)</b>	1,000	10.00%	1,850	17.62%	1,943	17.62%	3,690	11.70%
<b>NET INCOME OPERATIONS (GPr - Exp)</b>	9,000	90.00%	8,650	82.38%	9,083	82.38%	27,835	88.30%
OTHER INCOME (Interest Income)	0	0.00%	0	0.00%	0	0.00%	0	0.00%
OTHER EXPENSE (Interest Expense)	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>NET PROFIT (LOSS) BEFORE TAXES</b>	9,000	90.00%	8,650	82.38%	9,083	82.38%	27,835	88.30%
TAXES 1. Federal, S-Employment	5,000	50.00%	800	7.62%	0	0.00%	5,800	18.40%
2. State	0	0.00%	0	0.00%	0	0.00%	0	0.00%
3. Local	0	0.00%	0	0.00%	0	0.00%	0	0.00%
<b>NET PROFIT (LOSS) AFTER TAXES</b>	4,000	40.00%	7,850	74.76%	9,083	82.38%	22,035	69.90%



1 Year Profit and Loss (Income) Statement

For the Year: 2006												12-MONTH	% of Total	
INCOME:	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	AMOUNT	PERCENT
<b>1. Sales/Revenues</b>														
Product A	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Product B	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000	66.67%
Product C													0	0.00%
Product D													0	0.00%
Product E													0	0.00%
<b>3. GROSS PROFIT</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>3,000</b>	<b>36,000</b>	<b>100.00%</b>
<b>EXPENSES:</b>														
<b>1. Variable Expenses</b>														
Materials	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Supplies	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	33.33%
Equipment													0	0.00%
Furniture													0	0.00%
Other													0	0.00%
Training													0	0.00%
Miscellaneous													0	0.00%
<b>Total Variable Expenses</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>2,000</b>	<b>24,000</b>	<b>66.67%</b>
<b>2. Fixed Expenses</b>														
Rent/Mortgage	50	50	50	50	50	50	50	50	50	50	50	50	600	1.67%
Utilities													0	0.00%
Telephone													0	0.00%
Office Supplies													0	0.00%
Postage													0	0.00%
Equip/Auto repairs/maint													0	0.00%
Insurance													0	0.00%
Loan Payments													0	0.00%
Marketing/Advertising													0	0.00%
10. Subscription/Dues													0	0.00%
Legal/Accounting													0	0.00%
Auto:Fuel													0	0.00%
Salaries													0	0.00%
7.5% Withhold Match													0	0.00%
Owners Compensation													0	0.00%
Depreciation (Office Equipment)													0	0.00%
<b>Total Fixed Expenses</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	<b>600</b>	<b>1.67%</b>
<b>Total Variable and Fixed Expenses</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>2,050</b>	<b>24,600</b>	<b>68.33%</b>
<b>Net Income From Operations</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>950</b>	<b>11,400</b>	<b>31.67%</b>
Other Income (Interest)	10	10	10	10	10	10	10	10	10	10	10	10	120	0.33%
Other Expense (Interest)													0	0.00%
<b>Net Profit (Loss) Before Taxes</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>11,520</b>	<b>32.00%</b>
Taxes: a. Federal													500	1.39%
b. State													0	0.00%
c. Local													0	0.00%
<b>NET PROFIT/(LOSS) AFTER TAXES</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>960</b>	<b>11,020</b>	<b>31%</b>