Getting Started: An Essential Guide for First-Time Founders

PASQUESI PARTNERS

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Starting a business is an exciting decision. You've got a brilliant idea and have decided to go for it! As with any risk, while the rewards are tantalizing (autonomy, profit, sharing your idea with the world), it is a good idea to approach your decision methodically.

This guide covers the basics of turning your business idea into a reality. We also share real-world experiences, tips, and resources while helping you to avoid the common pitfalls many new business owners face.

While we'll focus on the financial side of starting your business, we encourage you to ask yourself critical questions to help guide your way to growth and entrepreneurial success:

- **What problem are you solving with your business idea?**
- **Do you have a product-market fit?**
- **What is your revenue opportunity*?**

** Knowing your Total Addressable Market (TAM) helps prioritize business opportunities by serving as a quick metric of a given opportunity's underlying potential.*

Answering these questions (and continuing to reflect on your business as it develops)will help you make sure that not only is there a market for your products but that you are able to adapt to its inevitable changes.

Let's begin!

START-UP RESOURCES

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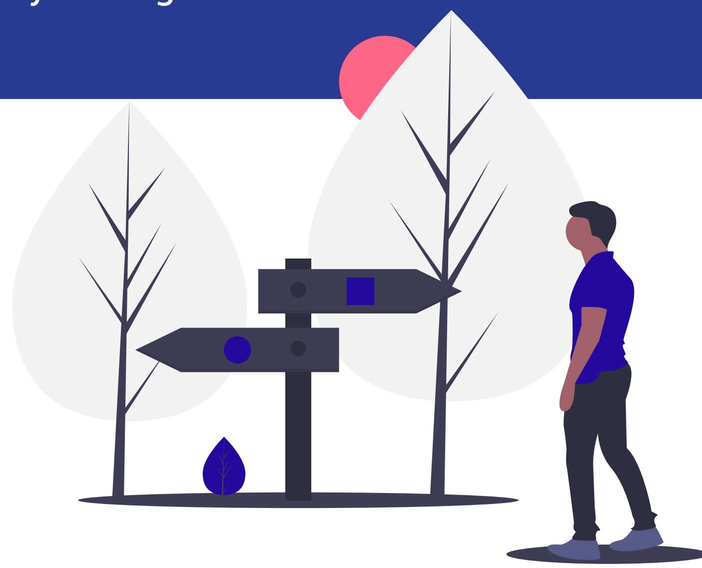
1 Entity Structure Basics

Deciding how to structure your business can be a difficult process, especially before you've got customers.



Common Entity Types

Below are the most common business entities. These are a few ways to structure your business, although much of that decision will hinge on your business goals.

SOLE PROPRIETORSHIP

A sole proprietorship is a business owned and managed by a single person. This one person will bear 100% responsibility for the actions and funding of the business.

+ PROS	- CONS
• Simplest to organize and easiest to understand. • The owner has complete control over the business. • No legal incorporation or formal action required to get started. • The owner receives all profits.	• Owner is liable for all business debts. • Obtaining a loan can be difficult. • Creditors can pursue repayment from the owner's personal assets (houses, cars, retirement) if the business can't cover its debts. • Higher IRS audit rate versus other entity structures.

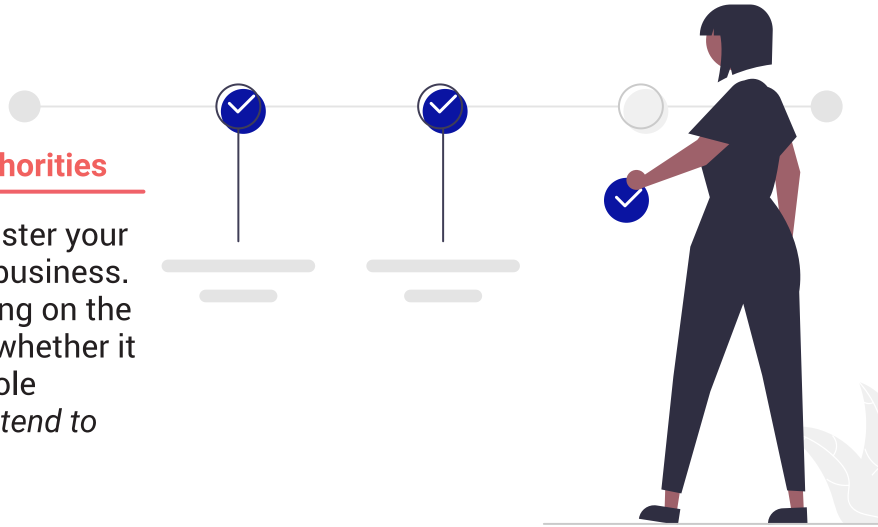
GENERAL PARTNERSHIP

In a general partnership, all partners are equally responsible for the debts and liabilities of the business. There is no limit on the number of partners permitted.

+ PROS	- CONS
• Flow-through taxation (meaning the business entity is not taxed on its own). • Less paperwork and cheaper to create than incorporating or becoming an LLC. • Partners pool their resources instead of facing obligations on their own. • No rigid corporate structure.	• Each owner is equally responsible for debt and losses. • As with a sole proprietor, personal property is fair game to creditors if the business assets aren't sufficient to cover debts. • Partners are liable for debts and actions of the other partners. • Can be challenging to raise capital from outside investors.

	+ PROS	- CONS
LIMITED PARTNERSHIP Similar to a general partnership, with the exception that limited partners report to the general partner (GP) and have less responsibility and accountability than the GP.	• Limited Partners (LPs) have no liability but take part in the profits. • GPs have managerial power. • Flow-through taxation. • Less paperwork and cheaper to create than incorporating or becoming an LLC. • Safer and more attractive to certain types of investors.	• LPs have no managerial power. • GPs carry full liability. • More paperwork and tax-filing formalities than with a general partnership. • LPs lose their limited liability status when they assume management roles.
LLC (LIMITED LIABILITY CORPORATION) An LLC shares some characteristics of a corporation, but with the convenience of flow-through taxation. Can be ideal for multiple owners and business income is filed as part of the owners' personal income.	• Tax flexibility and flow-through taxation. LLCs can choose to be taxed as a sole proprietor, partnership, S-corp or C-corp. • Less paperwork and easier filing process compared to a corporation. • As small as one owner but no limit on the number of members. • Owners are protected from some liability if the company can't cover its debts or runs into legal issues.	• Owners can't pay themselves a salary or wages. • Rules vary by state, Renewal and publication requirements can be costly, There can be franchise or capital values tax on LLCs ranging from flat fees to a % of the company's revenues. • Can be difficult to raise capital because investors are more inclined to invest in corporations. • Ownership spread across members of the LLC.
S-CORPORATION In an S-corp, the company issues stock and is treated as a corporation. Owners are shareholders and protected as if they were incorporated. Shareholders are only taxed on the individual level.	• Personal assets are protected. Only investment and equity in the business can be tapped by creditors. • Pass-through taxation. Not subject to double taxation. Shareholders can take distributions that are not subject to self employment tax. • Easy transfer of ownership. • More credible to investors than a sole proprietorship or partnership.	• Can be difficult to form S-corp from a legal standpoint. • Stock restrictions prevent shareholders from quickly getting rich. • The IRS pays close attention to S-corporations. Mistakes in tax filings can cause your S-corp status to be revoked. • There is only one class of stock. • No allowance for foreign investors.
C-CORPORATION A C-corp is taxed separately from its owners. C-corps are required to issue financial statements and file separate taxes. C-corps are completely separate entities from the owners, including for liability.	• Limited Liability protection. • Raise capital through stock sales. • Stock options, benefits of stock are available for employees. • Unlimited life of the entity, clearly defined structure and accountabilities. • Tax code advantages like section 1202 (encourages investment in small businesses).	• Setup is time-consuming and can be expensive. • Many regulations and limited flexibility of structure and reporting. • Potential for double-taxation (i.e. the company pays tax on its profits, shareholders pay tax on their dividends).

Now that you have an overview of the different types of business entity, here are a few common pitfalls to avoid:



Failing to Register with the Proper Authorities

Our number one pitfall is failing to register your business in the state in which you do business. "Doing business" has to do with carrying on the normal activities of a business entity, whether it is a corporation, LLC, partnership, or sole proprietorship. At its essence, if you *intend to make a profit, you are in business*.

Here are four steps to start-up right and to keep your business in proper standing:

1. **Register Your Business:** You will need to register as a business and file a tax return in any state that you physically do business in. Your company may be incorporated in Delaware, but if you're not doing business there it's not necessary to file a State tax return.

   Some states require additional registration. For example, in Illinois you must complete a REG-1 Form with the State of Illinois. This will establish your Illinois Department of Revenue (IDOR) Account ID (formerly Illinois Business Tax Number). This is the account that you'll need to get your unemployment number, which is needed to process your payroll, and also the account where you'll need to file and pay sales tax.

2. **Request a Federal EIN Number:** Make sure you get an EIN (employer identification number) from the IRS. This is not required if you are a sole-proprietor but may be recommended in order to keep your Social Security Number secure if you send W-9 forms to clients.

3. **Establish a separate bank account and credit card (for business use only).** Check that your banking solution easily connects with Quickbooks for automatic bank feeds. For banking services, we recommend:
   - Chase
   - Signature Bank
   - Silicon Valley Bank
   - First American Bank
   - relayfi.com

   For credit cards, Chase and BREX are easy to work with and have great business credit options.

4. **File your Annual Reports:** *Every year*, companies need to file an annual report and pay a nominal filing fee (if you are a sole-proprietor you will not need to do this). Typically, the state sends a reminder to the Registered Agent a month or two before the annual report is due. Most companies have their attorneys act as the registered agent. An issue we see in our accounting practice is that startups miss this filing date, become outdated and need to pay double to become active again.

Common pitfalls to avoid (continued):

Lack of Liability Protection

Many new businesses overlook insurance protection, especially if starting as a home based business, you may not realize this is an option. Commercial lease agreements may be require you to purchase liability insurance but additional insurance products may be a good idea too. You may still be personally liable without the protection an LLC or Corporate entity might provide.

Protect your business and personal assets by getting the proper insurances!

A professional insurance agent can help you decide what's best for your business needs. Depending on the sector you're operating in, you may only need a simple business liability plan. However, more complex fields, like finance and insurance, may require to get E&O (errors and omissions).

Lack of Business Insurance Protection

- What happens if the company goes bankrupt or faces serious legal and tax penalties? Who bears the responsibility?
- If the partnership or founding team can't cooperate any longer, or a partner or founding member wants out, how do you resolve that situation as painlessly as possible?

Prepare for the worst, hope for the best

Contracts are an essential part of structuring your business and will have a major impact over the life of your business.

Founder agreements, startup contracts, and bylaws are far too important to bypass having a good lawyer examine them. Getting your legal structure right from the beginning can save you years of headaches - this isn't the place to pinch pennies.

A good lawyer can develop contracts specific to your business needs and help you prepare for what happens in worst-case scenarios.

We are here to help!

If you need a referral, we'd be happy to help connect you to a qualified law firm or insurance agent. Get in touch with us here.

What are the tax implications of my entity structure?

Understanding Filing requirements: Different entity structures can have different tax filing requirements, due dates and obligations. Corporations are taxed differently from sole proprietorships and partnerships. Consideration of tax implications should be a factor in choosing your entity structure - it can have a big impact on your taxes.

As specialists in small business accounting we are often asked, *"We don't have any revenue, but we do have expenses; should we file a tax return?"*

The answer is always, "**Yes.**" You should still file even if you haven't received income yet. You can show a loss on Schedule C when filing taxes with no income to offset other income.

When are my Federal taxes due?

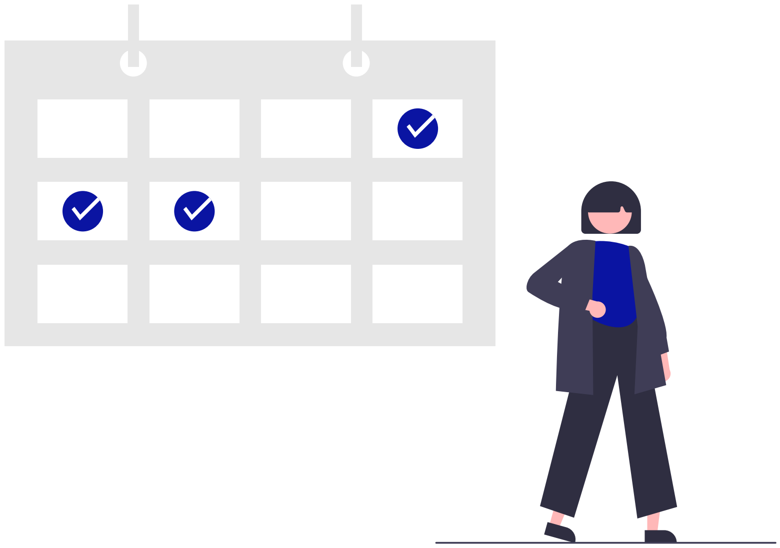
- **C-Corps** .... **Due April 15**
- **LLC and S-Corps** ... **Due March 15**

If the deadline is approaching and you are not ready to file, it's possible to file a 6-month extension.

Do I have to pay State Sales Tax?

Sales tax filings are another deadline, but at the state level. If you sell a taxable product or service, you must collect and pay sales tax. Every state is different, and often companies may have to file monthly, quarterly, or annually depending on their revenue. It's a good idea to understand the tax implications of your type of business at all levels: local, state, and federal. For Illinois residents, visit: https://mytax.illinois.gov/

Sales Tax Resource: TaxJar and Avalara are two software options built to help business owners manage the collection and reporting of sales tax.



Independent Contractor or Employee?

No matter which type of business classification you choose, at some point you will likely pay a contractor. Pasquesi Partners gets a lot of questions about paying and tracking contracted labor so here are a few quick points about paying contractors:

It is important to classify whether your workers are contractors or employees. As a general rule of thumb, If you pay an independent contractor more than $600, that individual or company must receive a 1099. We recommend they use the IRS 20 point checklist to make this determination. Visit irs.gov here.

Resource: We've developed a 20-point checklist specifically about the topic of paying contractors. Interested? Reach out to us and for a copy.

You must collect a **W-9 FORM** for all contractors (including law firms, landlords, and more services you may employ) before you pay any contractor. This form provides information used to create the 1099-Misc forms. A copy is sent to the independent contractor and to the IRS.

1099 forms are due January 31 each year. It is important to get these sent out on time because these forms also impact the contractors; they need their copy of this form to complete their taxes accurately. We like Track1099.com as a tool to prepare and file these forms.

2 Financing Your Startup

We'll take a look at common finance mistakes as well as tools and tips for the savvy entrepreneur.

Many common business finance mistakes are errors of omission; things like not having a budget or reliable cash flow projection. Even if it's just a draft, creating a budget is a good foundation to understand where revenue streams are and how you plan to use your cash.

Borrowing Too Much

While liquidity is important, having *too much* cash can also be problematic. Borrowing money costs money. You are either paying interest on the borrowed amount or a fee on the reserved amount. Further, a high amount of cash can lead you to operate with less scrutiny on your expenses.

Waiting Too Long To Raise Funds

Just as borrowing too much is a problem, waiting too long to start looking for additional capital can also create stressors for your new business venture. A certain amount of reasonable risk is to be expected and capital may be hard to predict in the early years, but running out of cash before securing the necessary resources to keep your business operating isn't a good bet.

Jump at the First Offer

While shopping around to make sure you're getting a good deal with good terms, make sure to consider any incoming investor as a *partnership*.

Don't simply accept money because the company needs outside funding to grow. Your business relationships with lenders and investors are just like your personal relationships; they come with a need for mutual understanding and shared goals. And, maybe a well-termed contract.

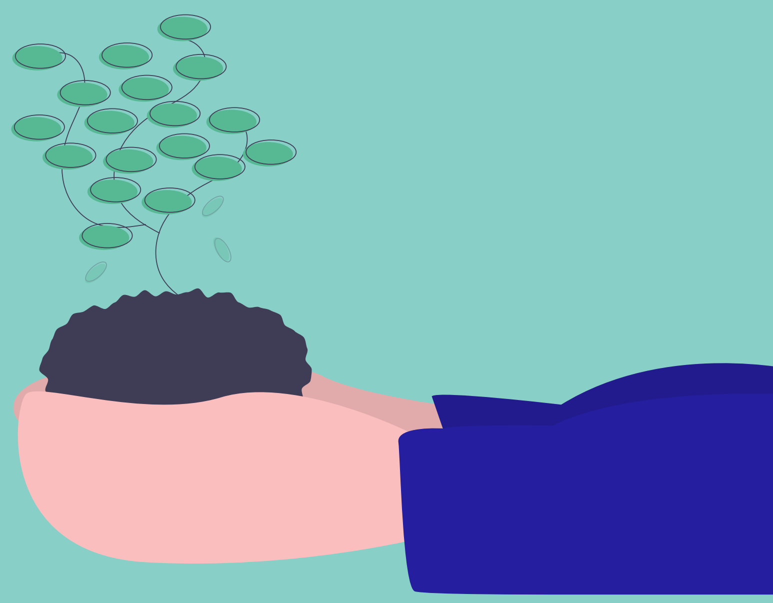
4 Best Practices for Business Funding

1. **Explore your Options:** Consider as many financing and funding options as possible. Explore alternative funding ideas like:
    - Supplier credit through extended payment terms
    - Drop-shipping
    - White-labeling

2. **Know what you're getting into:** Understand the requirements and best practices for each of your funding options. Get a second opinion and review with your accountant and lawyers.

3. **Know your Finances:** Have a firm understanding of the current financial situation, and see the implications of the payments and investor terms.

4. **Do your Research:** There are a few good websites for finding investors. Pasquesi Partners likes earlyintro.com - a matchmaking app for startups and investors. Angelist and Republic.co are some other reputable sites.



Common Fundraising Tools

Convertible Notes

Convertible notes are short-term debt instruments that convert into equity instead of being repaired with principal and interest.

SAFEs

SAFEs - Simple Agreement for Future Equity is another convertible instrument. Investors are promised future stock shares in exchange for an investment today. SAFEs are more flexible than priced rounds, where company shares are issued for a fixed price.

Equity

With equity fundraising, investors receive shares (a portion of the company) in exchange for their investment.

3 Business Financials and Banking Setup

Common Early Financial and Banking Mistakes

Mixing business and personal accounts

This is a fairly common issue. When you first start, it can be hard to draw the line between business and personal money. As soon as possible, separate the two. Mixing your business and personal funds can affect your status as a corporation and create serious tax consequences.

Choose a business bank that integrates well with your accounting software.

Poor Bookkeeping Practices

If you're not an accountant or finance person, engage the services of someone who is. Bookkeeping allows you to keep track of what's happening in your business from a financial perspective. And frankly, there's no real excuse anymore for poor bookkeeping practices. Most of it can be easily outsourced or automated, keeping your effort to a minimum.

Lack of Tax Planning

Even if you don't yet have revenue, your business needs to file a tax return on its expenses. Missed tax filing deadlines can have consequences no matter what your structure is.

Tax planning also means setting enough cash aside for tax liabilities and making quarterly estimated payments.

5 Best Practices for Business Financials

1. **Regular bookkeeping.** Regular bookkeeping can make sure you're always on top of what's happening from a financial perspective,

2. **Quarterly tax payments.** The IRS doesn't like to wait for their money. If your business is making money, you'll need to pay taxes on those earnings.

3. **Tracking basic financial KPIs.** Regularly looking at your KPIs can give a good indication of what's going on in the business, indicating where you have issues to address.

4. **Working with an accountant.** Accounting can be a complex topic, especially for startups. An accountant can help take the load off of the founders, and catch things like tax credits or subsidies that the layperson might not be aware of.

5. **Transparency with investors.** Give them regular updates and let them know how things are progressing. Invisible.vc is a good tool for maintaining this transparency.

4 Accounting Tools

Systems and software to help you succeed!

Common Mistakes with Accounting Systems

Not Using a Software Tool

The accounting profession has come a long way in the past 40 years. What was once performed with a calculator and ledger paper is now done in a spreadsheet, or even entirely automated.

Not Properly Using all Relevant Features

Many accounting tools are extremely versatile. But sometimes, businesses don't use the full feature set. Invoicing, forecasting, expense tracking are all common capabilities that can add a lot to understanding and managing the financial health of your business.

3 Common Accounting / General Ledger Tools

	+ PROS	- CONS
Quickbooks Online (QBO) QuickBooks is an accounting software package developed and marketed by Intuit. QuickBooks cloud products are geared mainly toward small and medium-sized businesses.	• Easy onboarding and startup process • Good integration with third-party applications • Affordable • Considered the "go-to" tool for small businesses	• Very general. If you need industry-specific tools or features you may need to look elsewhere • Limited reporting outside of accounting • A limited number of users
XERO Xero is a cloud-based accounting software platform for small- and medium-sized businesses.	• Cloud-based and flexible • Scalable to grow with your business • Built-in payroll (not included in all plans)	• Can be complex to learn • Poor customer service • Not a lot of banks directly connected/integrated
WaveApps (Free) Free software & business management tools for small businesses & entrepreneurs.	• Free • Integration with PayPal, Stripe and business credit cards • Easy invoice management • Designed for smaller operations	• Limited capabilities, feature set • Linking bank accounts can be difficult • Might be too limited for larger operations

5 Business Software Solutions

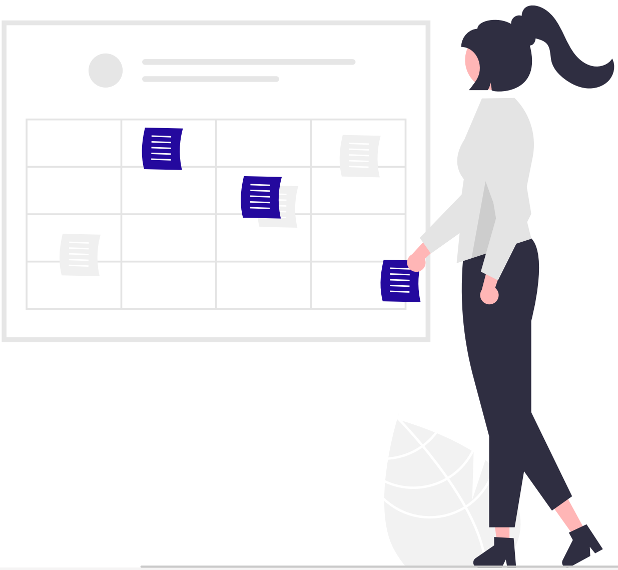
Common Business Software Mistakes

Not Using Business Software at All

Or, mot using software to its full potential. Like accounting tools, business software can also bring a lot in terms of efficiency gains. Many apps make common business activities, like payroll or expense tracking, so much easier and user-friendly.

Software Hoarding

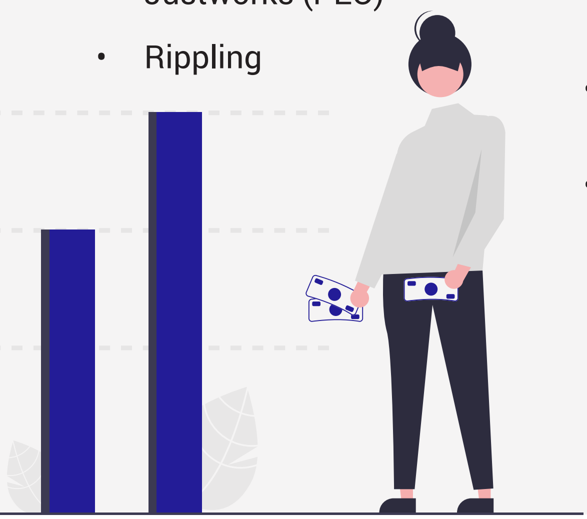
Lifetime deal alert! Hold your horses there… The flip side of this coin is having *too many* tools, most of which go unused or not fully used. Although they can be small expenses on their own (i.e. $10-$50/user/month) the expenses can add up and hurt cash flow.



3 Useful Types of Software to Consider

PAYROLL

- Gusto (preferred for startups and small businesses that need basic bookkeeping)
- Justworks (PEO)
- Rippling



FINANCIAL REPORTING TOOLS

- Fathom (budgeting and forecasting)
- Jirav (budgeting and forecasting)
- Float (cash flow management)
- Spotlight Reporting (budgeting and forecasting)

EXPENSES AND BUDGETING

- Expensify or Dext for receipt tracking
- MileIQ for mileage tracking
- Melio and Bill.com for bill payments
- Bill.com is good for tracking expenses by employee, accounts receivable, and deferred revenue

6 Working with an Accountant or CPA vs Self-Managed Accounting

With all of the software tools currently available, you could probably manage your accounting on your own. But, if you opt for the DIY route, you may miss out on a few things. The major benefit of working with an accountant is that they know the ins and outs of tax laws and which credits might be available to your fledgling startup.

Self-Managed Accounting: Common Mistakes to Watch For

Fees and Errors

With both taxes and payments, fees and errors can be costly. Not paying bills on time (both too early and too late) is critical.

Paying Too Much on Taxes

Many lay people aren't aware of all deductions or credits available to businesses and startups. But, tax laws are laws and a lack of knowledge of the law is not a defense. If you aren't following changes in tax law professionally, you might be overpaying when it comes to tax time.

Poorly Managed Cash Flow

When you've got a million things going on, it's easy to assume that the finances will take care of themselves. But by self-managing your accounting, you're missing out on having an objective, knowledgeable third party look over your books and cash flow projections.

Professional Partners: Maybe you don't have to do everything?

4 Tips to Get the Most out of your Accounting Partner

1. First, ensure that you have all data necessary to lead your business to success.
2. Partner with a reputable company that has experience in your industry or with your type of business. Many accounting firms have a specific niche they serve, so it should be possible to find one that fits you.
3. Seek, consider, and heed your accounting partner's experience and advice. They likely have both considerable experience and a good view of what's happening in the industry as a whole.
4. Take a look at the full suite of services offered to see how your accounting partner could help your business. From bookkeeping to payroll to CFO and advisory service, many accounting firms offer far more than just tax help.

Ready to Get Started?

Starting a business can be both one of the hardest and most rewarding things you'll ever do. So, congratulations on taking this first step.

With preparation and planning you can avoid the common first-time founder pitfalls we've detailed in this guide. You may still make mistakes (who doesn't?), but with the right foundation you can be prepared to manage risk and adapt to changes in the market. From selecting the right entity structure to understanding and managing your cash flow, navigating your business through uncertainty and building a successful company is an exciting and ultimately rewarding venture.

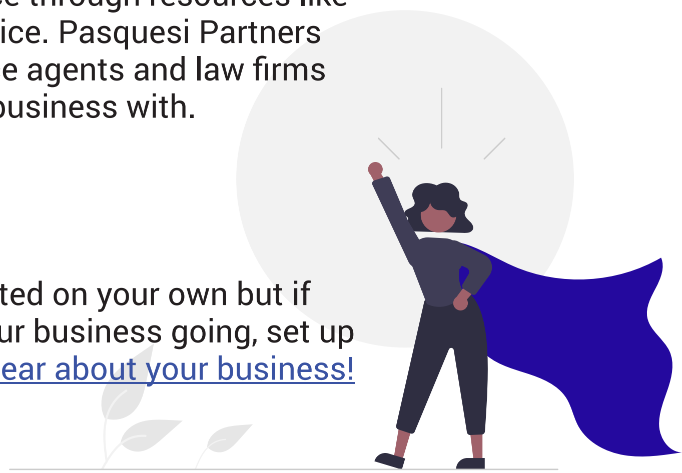
While there are a lot of things to know, there's also a lot of information available to help you get started properly. Your business is unique, but many best practices are standard and you'll find that other entrepreneurs and founders are more than willing to share their experience and advice with you.

Building professional relationships is one of the best things you can do to get your business started out on the right foot.

Pasquesi Partners is an accounting service that specializes in working with startups and small businesses. A founder himself, Rob Pasquesi is keen to share his knowledge and experience through resources like this guide as well as in his professional practice. Pasquesi Partners can also help refer you to the expert insurance agents and law firms we've come to trust our clients and our own business with.

What's next?

This guide was designed to help you get started on your own but if you'd like some specific advice on getting your business going, set up a call with our startup experts. We'd love to hear about your business!



Rob Pasquesi, Founder
Pasquesi Partners

PASQUESI PARTNERS

Simplifying Accounting for Startups

Pasquesi Partners is your small business accounting partner. Let us handle your accounting so you can **grow your business.**

"Rob is awesome! … I am a small business owner of 13 years and would definitely recommend their services. Accounting and tax prep is very stressful to me, Rob and his staff are very knowledgable and up to date on everything in the accounting and business world!"

– Jen Z.

"...Rob has been a wonderful partner for my business and makes the overwhelming process of filing taxes easy and painless even for first time business owners! "

– Sam L.

Pasquesi Partners, LLC is a top notch accounting and financial management firm. Rob is professional, kind, and hardworking. When I have questions or concerns about any financial aspect of our business, I contact Rob for guidance. Our business is in a much better place after partnering with Pasquesi Partners."

– Doug C.

Rob and Pasquesi Partners really fixed up my accounting... Rob and his team put an easy to use system in place that gave me complete transparency and full explanations. Anytime I have a question or need they are there to answer and assist. I now feel comfortable with my books, and feel like I can focus more on my business and that the backend numbers are being taken care of properly."

– Cory N.

Schedule a complimentary call:
https://pasquesipartners.com/schedule-an-appointment/