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Checklist for Setting Up Your Business After Forming A Pennsylvania LLC

After we form a Limited Liability Company (LLC) for your business the next steps are to:

1. Open the new LLC business checking account you will need the LLC Certificate of Organization and the EIN. When you open the business bank account get the following:
 - a. Just put your LLC name on the business checks not your address;
 - b. Put "*Void After 60 Days*" under the dollar line on the checks and begin with number 1001;
 - c. Get overdraft protection for your business account;
 - d. Get your monthly statements and check images in the mail or print them out or save them every month to your computer or server.
 - e. Get copy of your signature card. (Per Uniform Commercial Code Article 3)
 - f. Get a business debit card that you can use to make business purchases or take draws.

I recommend Republic Bank, Beneficial Bank or United Savings Bank which mail you your monthly statements and check images at no additional charge.

2. Then fill in a W-9 with your LLC name and EIN and give it to anyone that paid you over \$600, so they do not issue you a 1099-Misc. under your SSN for the current tax year.

3. If you are a single member LLC your default tax status is disregarded for federal tax purposes, which means you will file a schedule C with your federal 1040 income tax return. Once your net profit approaches \$15,000 you should make an S election by filing using form 2553 with the IRS by March 15 of the tax year you want to be taxed like an S-corporation. If you keep filing a schedule C, you can contribute up to 20% of her net Schedule C income to a SEP IRA up to \$55,000 in 2018.

4. If you form an LLC with more than one member your default tax status is a partnership which means you will file a 1065 tax return. I recommend if you plan on purchasing commercial or residential rental real estate you title the property in the LLC when you buy it and report the rental income generated by the property and the expenses on the partnership return. Later when the LLC sells the property you can avoid the built gains tax that applies to corporations. If the LLC owns more than one rental property you need to make an election to treat all the properties as a single activity under passive activity loss limitation rules. The Partners can also receive guaranteed payments which are similar to wages for services performed but those guaranteed payments will be subject to self-employment tax and reported to the Partner on a K-1 instead of a W-2.

5. If you choose to be taxed as an S-Corporation you should hire a payroll company to pay you once per month and set up direct deposit and pay yourself at least \$12,500 (\$15,500 if you are 50 or older) in 2018 if you are under so you can maximize your Simple IRA employee contribution. I would recommend Ryan Russell at Precise Payroll at 302-530-8410. Ryan will fill in the PA-100 application for you. Remember if you are the only member employee you do not need Workmans Compensation Insurance. You can also add your spouse as an employee if he or she is not currently employed elsewhere and you want to cover him or her under the LLC employer group health insurance, or LLC employer retirement plan or pay his or her company travel.

6. You can also choose to be taxed as a C Corporation and the main advantages is the Corporation can deduct health insurance in full for shareholders and officers which is not available with an S Corporation. If you plan to sell the business after 5 years you can exclude the gain from the sale under Internal Revenue Code Section 1202 exclusion on qualified small business stock. It is easier to raise money from outside investors because there is also no limit to the number of shareholders that you can have or the types of shareholders you can have. If you are focused on growing the business and are not going to distribute any earnings you can take advantage the lower 21% tax rate in 2018 on C Corporations. However if the corporation accumulates more than \$250,000 of retained earnings it may be subject to the Accumulated Earnings Tax of 20%.

7. You should use Microsoft Outlook or Google Calendars to schedule your appointments and track your mileage, meals, entertainment and cash expenses. Also keep receipts so you can total your cash expenses at year end. You should use Quickbooks to do monthly profit and loss statements to calculate your quarterly estimated tax payments. However, please do not include draws as an expense in arriving at net profit. If you need help setting up Quickbooks call Kristen Runge at 570-575-9460.

8. No matter what entity you choose for tax purposes, you will need to do a quarterly profit and loss report so you can pay personal estimated tax payments on April 15, June 15, September 15, 2018 and January 15, 2019 using forms 1040ES and PA-40ES from your personal bank account. Always pay your income tax from your personal bank account because Partnerships and S Corporations do not pay tax and pass all the income and expenses to shareholders or partners via a K-1.

9. Keep track of your capital contributions into your business account since these are nontaxable deposits. During the first year you can only deduct a business loss up to your tax basis which is based on your capital contributions. For example if you made a \$10,000 capital contribution in the first year, the most you can deduct as a business loss is \$10,000. When you take draws from your LLC that reduces your tax basis, since you can only take draws from your net profit, the money has already been taxed so whether you leave the net profit in the business bank account or take out as a draw to supplement your salary you are going to pay income tax on the net profit but not social security tax.

10. To maximize your retirement you have until October 1 to open a Simple IRA and then you have until April 15, of the following year to make a \$12,500 employee contribution and your LLC can make an employer contribution of up to 3% of your pay. If you can afford to, you should also fund a

ROTH IRA or a nondeductible IRA by contributing \$5,500 by April 15, of the following year assuming you met the AGI limits and you are under 50 years old. If you are over 50 years old, you can make an employee contribution of \$15,500 into your Simple IRA and \$6,500 into your Roth IRA. Make sure your payroll company includes your Simple IRA contributions on your W-2.

11. If you want to shelter additional income and do not want to use a Simple IRA, you should consider setting up a solo 401K and contribute \$18,500 if you are under 50 and \$24,500 if you are over 50. However, you cannot contribute to both a 401K and a Simple IRA in the same year, and you must pay yourself the same amount or more than you contribute to the plan on an annual basis. With a 401K your employer can also match up to 10% of your salary as opposed to a 3% employer match with the Simple IRA. The overall limit for 401(k) contributions is \$55,000 for 2018.

12. You should get the following insurance under your new LLC name:

- a. Professional liability or Errors and Omissions insurance.
- b. You should also register your business vehicle registration in your LLC name and inform your auto insurer to update your policy and add full tort coverage. I would recommend Tim Harris of Nationwide at 610-565-1910
- c. You should also get a personal umbrella of at least \$1,000,000 if not more depending on your personal net worth.
- d. You should also get disability insurance and pay the premiums out of your personal bank account so if you have to file a claim the proceeds will be tax free. I would recommend Karen Maine at 610-426-0007 to get quotes for a, c and d.
- e. Health Insurance, I recommend you contact Donna Gerrace at 610-832-3740.

13. To set up your website and online presence contact Greg Sutphin at 610 757 8411. He can help you set up your business on Facebook, Avvo, Yelp, Linked In, Twitter and Google +.

12. Make sure your business cards, stationery, pens and client invoices have your complete LLC name.

14. You should sign up for a business visa or master card that either pays you cash back or pays you rewards like Capital One Quicksilver or Spark Business card 877-987-4249, or Chase Ink 800-882-6751. You should use the card to make all your business purchases so when you receive the year end detailed statement that will list all your business expenses by category, it will simplify your record keeping.

15. If you want to accept credit cards using your smart phone sign up for Square, which has no monthly fees and charges about 2.75% per transaction.

16. If you hire someone else to reconcile your bank statements and or make deposits make sure they are bonded to prevent fraud. You should also review your annual profit and loss reports and tax returns looking for any unusual increases in expenses. In addition, you should review the cancelled checks every month to ensure there are no missing checks or suspicious transactions.

17. If you collect sales tax, you should reconcile your total deposits to your total monthly sales tax returns including your credit card sales reports with your gross revenue to ensure all taxable deposits are included in gross revenue. Examples of nontaxable deposits include loans and capital

contributions. You should also verify that your gross sales reported on your Pennsylvania monthly sales tax returns do not exceed the gross revenue reported on Federal and State business tax returns.

18. If your gross receipts exceed \$500,000, and you have hourly employees you must pay them the minimum wage and if they work more than 40 hours per week they must be paid overtime at time and a half. You will need to track their time on a weekly basis. Currently the minimum wage in Pennsylvania is \$7.25 per hour.

19. If you rent or own commercial space consider switching to Direct Energy at 888-734-0741, which will charge you a fixed rate of 8.79 cents per kWh for electricity which includes transmission charges and gross receipts tax. Compare that rate to PECO's rate.

20. If you pay anyone who is not a corporation more than \$600 during the tax year, have them fill in a W-9, *before you pay them* so you can have me issue them a 1099-Misc. by February 1 of the following year. Give me a list of who you paid by January 20, and I will issue the 1099's for you

21. You should set up an accountable employee reimbursement policy so you can reimburse your employees for their cell phone, travel and business meals.

By doing all the above steps you will follow the three rules that every entrepreneur has which are to:

1. Pay the least amount of taxes legally by following rules 2 and 3 below;
2. Maximize your retirement contributions by fully funding both a Simple and Roth IRA;
3. Practice good LLC governance by not paying personal expenses from your business checking account and keeping good business records and using your business credit cards for all your business purchases. Ensure you have the proper amount of insurance listed in paragraph 6 above.