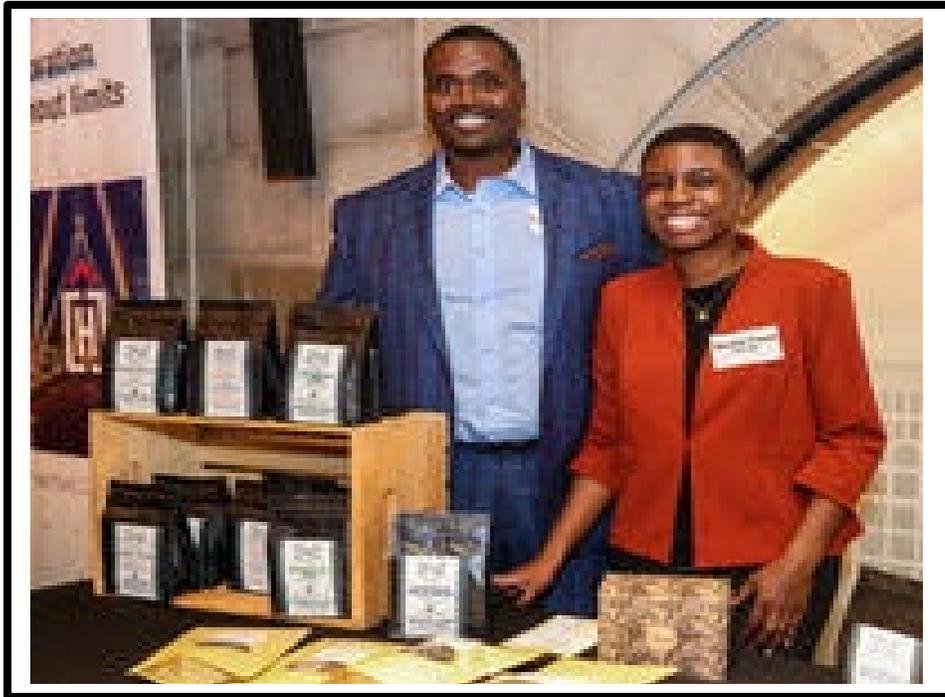


STARTING A SMALL BUSINESS In NORTHWEST and CENTRAL CONNECTICUT A BASIC GUIDE



NORTHWEST CONNECTICUT



CHAPTER 698

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For additional counseling and guidance for starting a business in Northwest and Central Connecticut, contact:

Northwest Connecticut SCORE
www.northwestconnecticut.score.org

In partnership with

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**STARTING A SMALL BUSINESS
IN NORTHWEST and
CENTRAL CONNECTICUT
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STARTING A SMALL BUSINESS IN NORTHWEST AND CENTRAL CONNECTICUT

I. INTRODUCTION

Since becoming a **SCORE Chapter** in March of 2007, we of Northwest Connecticut SCORE have counseled over 2,900 existing and prospective small businesses regarding a wide range of business issues. Approximately 60 percent of those counseled have sought information and guidance on how to start a small business, from simple issues like obtaining a state tax number to the more complex issues of obtaining financing.

What this is and what it's not.

This guide covers many of the technical aspects of starting a business, like obtaining permits, tax number, obtaining financing, etc. What it is **not** is a guide to how to assess whether the venture makes any sense or has a decent probability for success. We will address all the things that go into a business plan such as a describing how the business will operate, whether there is a market for the product or service, or projected financial return.

Many of the questions posed to our SCORE counselors are similar in nature and can be answered by referring to an appropriate document, state or local agency, or website. The purpose of this booklet is to summarize information that responds to some of the most frequently asked questions by those seeking assistance from the Northwest Connecticut SCORE Chapter members.

This guide focuses on six areas that seem to recur in our SCORE counseling.

1. Necessary steps in starting a small business.
2. Choosing a legal structure (sole proprietor, LLC., corporation, etc.)
3. Issues relating to starting a home based business.
4. Forming a not-for-profit organization.
5. Obtaining financing.
6. Preparing a business plan.

An important purpose of this guide is to point the reader to resources available in the public domain for answering the most common issues brought to our counselors. Not covered are the many proprietary aids that are available for a fee, such as the many software packages for writing business plans and the assistance of attorneys, accountants, and professionals who consult in these areas. It is not the intent to provide the reader with a business plan, a legal structure for the business, or market research analyses. It is

meant as a guide for pointing the reader to some of the resources available to help make important decisions when starting a business.

Included in this booklet are outlines for those considering starting a business in Northwest and Central Connecticut. The purpose of this guide is to help those in the regions covered by the Northwest Connecticut SCORE Chapter to more easily focus on the key aspects of starting a small business in this area.

Most of the topics covered in this guide are covered in more detail in the book “**STARTING A SMALL BUSINESS IN CONNECTICUT**” published by Community Accounting Services, Inc. (CAS). We strongly recommend that anyone considering starting a small business in Connecticut obtain a copy. It is available at their website www.communityaccountingaid.homestead.com under **Publications**. Copies are also available at some of the libraries in the region, including Litchfield, Farmington, Harwinton and Winsted.

What we hope to do in this guide is to help those we counsel to focus on the key aspects of starting a business in the regions served by the Bristol and the Northwest Connecticut Chambers of Commerce and to point to the resources that help respond to the issues we see most frequently. We plan to update this guide regularly as the business environment changes and grows.

Web and Internet Considerations

One of the most important issues in today’s business environment is the use of the internet for websites and social networking. This is a topic of importance in running your business but not necessarily part of your startup (unless you are planning an internet based business). Rather than repeat information that is readily publically available, the reader is referred to a 36 page detailed introduction in Chapter 15 of the book “**STARTING A SMALL BUSINESS IN CONNECTICUT**” mentioned above. The chapter, entitled “**Web Commerce for Entrepreneurs**” is updated regularly and available for downloading at the CAS website under **Publications** then **View our web Commerce Chapter**.. A downloadable PDF version will appear.

NOTE: The information contained in this guide is accurate to the best of our knowledge at the time of printing. Since we live in a dynamic environment where telephone numbers, websites, and even agencies can change as agencies reorganize, websites improve, and laws and regulations change. Some of the information may become obsolete over time. Hopefully, the dedicated reader will be able to adapt to the changes and follow the resources as they upgrade and evolve.

STARTING A SMALL BUSINESS IN NORTHWEST AND CENTRAL CONNECTICUT

II. CHECKLIST FOR STARTING A BUSINESS

RESOURCES

In the recent past several helpful resources have been developed on the Internet have evolved that greatly reduce the amount of time and effort required to set up a new business in Connecticut. Two of the more comprehensive websites are:

1 The **State of Connecticut** Business website <https://business.ct.gov>
This site has a comprehensive selection of guidance and planning tools for doing business in Connecticut. For starters, click on **“Start your business”**.

After investigating the resources available, click on **“Create new business checklist”**. After you have decided on the type of business, your proposed legal structure, location, hiring employees or not, and a few other basics, the program will develop a personalized checklist of the various permits required and leads you to the appropriate agency websites and required forms.

2. The **US Small Business Administration**, Connecticut District website www.sba.gov/ct has extensive business startup aids. Click on **Business guide** on the home page for an extensive menu of assistance for startups.

3. **STARTING A SMALL BUSINESS IN CONNECTICUT** (Book)
Community Accounting Services, Inc. (CAS). To obtain a copy, go to www.communityaccountingaid.homestead.com and click on

"PUBLICATIONS

4. The **Internal Revenue Service** (“IRS”) at www.irs.gov. Publication 583 ,”**Starting a Business and Keeping Records**” provides extensive federal tax information and other useful information.

5. The **SCORE®** website www.score.org also has a comprehensive set of resources available to assist the prospective and current business owner.

THE BASIC STEPS

NOTE! Depending on the legal structure you choose, the sequence of steps may vary depending upon the rules of the government agencies involved. Once you have decided and/or determined the major components of your business it is recommended that you utilize the State of Connecticut website <https://.business.ct.gov> as mentioned in item 1 on the previous page.

For every type of business!

- All business types should check with their Town/City Clerk and town Zoning Office for local regulations. Every town has its own set of rules, and what is permitted in some towns is illegal in others. Also, rules differ within a town or city depending on where the business is located. **This is especially important for home based businesses.** Table 1, **SELECTED CITY/TOWN DIRECTORY** on page 7 lists phone numbers for Town Clerks and Zoning/Land Use officials in selected towns and cities. (To access all Connecticut city/town websites, go to <http://portal.ct.gov/Government/Cities-and-Towns>”).

NOTE: Depending on the type of business and the legal structure you choose, you may be required to sequence your steps differently and may be required to file other state licenses, registrations or permits in addition to those mentioned below.

Step 1. Decide upon and set up the legal structure of the business.

Because many of the registrations needed to start a business in Connecticut require that you have an official name, choosing the legal form is important as a first step. Otherwise, you may have to re-register if you change the name later and incur more registration fees. (A summary of choices for a legal structure for your business is covered in a subsequent section **IV. CHOOSING A LEGAL STRUCTURE**. As appropriate, register the company with the Connecticut Secretary of State, website at www.sots.ct.gov).

For example, if you choose to name the company "Mystery Meatballs" and later decide to be a corporation or a Limited Liability Company, your legal name will be either "Mystery Meatballs, Inc." or "Mystery Meatballs, LLC."

Step 2. File a Trade Name Certificate with the Town/City Clerk.

Check whether LLC, Inc. or other designation is required to be part of the business name. See TABLE 1, **SELECTED CITY/TOWN DIRECTORY** on Page 7 for contact phone numbers.

Step 3. Obtain a State Tax Registration Number/ID from the Connecticut Department of Revenue Services. Go to www.ct.gov/drs.

Every business in Connecticut must have a state tax number. Your business may be liable for collecting sales tax, and if you have employees, state withholding may be required. Check to see if the business will be liable for other state taxes.

Step 4. Obtain an Employer Identification number (EIN) from the IRS if required. This is required if there are employees, if you are a non-profit, or in some other situations. Check with the IRS.

Businesses hiring employees must register with the state Department of Labor for a State Unemployment Tax Number and determine rules regarding immigration and residency status for foreign nationals. Go to www.ct.gov/dol. Businesses with employees must also register with the IRS for a Federal Employer Identification Number. Go to www.irs.gov.

Step 5. Check local health department regulations for your business.

Permits and inspections are required for restaurants and businesses dealing in food. Table 2 on page 8 lists the local health departments for the cities and towns covered by this document.

Step 6. Obtain required licenses. Go to the State website, <https://business.ct.gov>. for information.

Step 7. Insurance

All businesses should determine what kind of insurance is needed. Business liability insurance is usually vital, and key member life insurance should be investigated. Confer with a commercial insurance broker.

Note for Home Based Businesses - your homeowner's policy generally does **not** cover liability for business activities in the home or the loss of business property and equipment. Check with your insurance company for appropriate riders and supplemental business coverage.

OTHER: If you have employees, you will have to provide Workers Compensation and Unemployment Insurance. Contact

For **Workers Compensation** – Connecticut Workers Compensation Commission
www.wcc.state.ct.us or 1-800-223-9675

For **Unemployment Insurance** – State Department of Labor www.ct.gov/dol.

CHECKLIST FOR STARTING A BUSINESS

(BASIC)

<u>ITEM</u>	<u>REQUIRED</u>	<u>NOT REQUIRED</u>
CHOOSE LEGAL STRUCTURE	<input type="checkbox"/>	<input type="checkbox"/>
FILE TRADE NAME WITH TOWN/CITY	<input type="checkbox"/>	<input type="checkbox"/>
REGISTER WITH SECRETARY OF STATE	<input type="checkbox"/>	<input type="checkbox"/>
STATE TAX REGISTRATION NUMBER/ID	<input type="checkbox"/>	<input type="checkbox"/>
STATE UNEMPLOYMENT TAX NUMBER	<input type="checkbox"/>	<input type="checkbox"/>
FEDERAL EMPLOYER ID NUMBER	<input type="checkbox"/>	<input type="checkbox"/>
CHECK LOCAL ZONING REGULATIONS	<input type="checkbox"/>	<input type="checkbox"/>
CHECK HEALTH DEPARTMENT RULES	<input type="checkbox"/>	<input type="checkbox"/>
OBTAIN REQUIRED LICENSE(S)	<input type="checkbox"/>	<input type="checkbox"/>
OBTAIN BUSINESS INSURANCE	<input type="checkbox"/>	<input type="checkbox"/>

NOTE: UNDER CERTAIN CIRCUMSTANCES, ADDITIONAL STEPS MAY BE NECESSARY.

EXAMPLES: Partnership agreements
Corporate By-Laws

NOTE: If you already have determined your key segments of your proposed business, it is strongly recommended that you use the tools at <https://business.ct.gov> to for your startup checklist.

TABLE 1
SELECTED CITY/TOWN DIRECTORY

<u>CITY/TOWN</u>	<u>TOWN CLERK</u>	<u>LAND USE</u>	<u>WEBSITE</u>
BARKHAMSTED	860-379-8665	860-379-1314	barkhamsted.us
BRISTOL	860-584-6200	860-584-6225	ci.bristol.ct.us
BURLINGTON	860-673-6789 x2	860-673-6789 x6	burlingtonct.us
CANAAN (FALLS VILLAGE)	860-824-0707x10	860-248-0802	canaanfallsvillage.org
COLEBROOK	860-379-3359 x203	860-379-3359 x201	townofcolebrook.org
CORNWALL	860-672-2709	860-672-4957	cornwallct.org
FARMINGTON	860-675-2380	860-675-2325	farmington-ct.org
GOSHEN	860-491-3647	860-491-2308 x232	goshenct.gov
HARTLAND	860-653-0285	860-844-5318	hartlandct.org
HARWINTON	860-485-9613	860-485-2784	harwinton.us
KENT	860-927-3433	860-927-4625	townofkentct.org
LITCHFIELD	860-567-7561	860-567-7565	townoflitchfield.org
MORRIS	860-567-7433	860-567-6097	townofmorrisct.com
NEW HARTFORD	860-379-5037	860-379-7677	newhartfordct.gov
NORFOLK	860-542-5679	860-542-6804	norfolkct.org
NORTH CANAAN (CANAAN)	860-824-7313x106	860-824-7313 x192	northcanaan.org
PLAINVILLE	860-793-0221	860-793-0221 x7177	plainvillect.com
PLYMOUTH (TERRYVILLE)	860-585-4039	860-585-4043	plymouthct.us
SALISBURY (LAKEVILLE)	860-435-5182	860-435-5190	salisburyct.us
SHARON	860-364-5224	860-364-0909	sharonct.org
SOUTHINGTON	860-276-6211	860-276-6248	southington.org
THOMASTON	860-283-4141	860-283-8411	thomastonct.org
TORRINGTON	860-489-2236	860-489-2220	torringtonct.org
WARREN	860-868-7881 x101	860-868-7881x117	warrenct.org
WASHINGTON	860-868-2786	860-868-0423	washingtonct.org
WINCHESTER (WINSTED)	860-738-6963	860-379-2713	townofwinchester.org
WOLCOTT	203-879-8100	203-879-8100 x125	wolcottct.org

Note: Numbers listed as of September, 2022

If person responding on Zoning/Land Use number is wrong person, go to Town Clerk and ask for correct number.

For all CT Towns <http://portal.ct.gov/Government/Cities-and-Towns>

TABLE 2 PUBLIC HEALTH AGENCIES

Some of the towns and cities have their own health department function. Many more belong to a Health District along with other towns. The following are the arrangements in the towns covered by this guide.

<p>Torrington Area Health District 350 Main Street Torrington, CT 06790 860-489-0436 www.tahd.org</p>	<p>Bethlehem Canaan Cornwall Goshen Harwinton Kent</p>	<p>Litchfield Middlebury Morris Norfolk North Canaan Plymouth</p>	<p>Salisbury Thomaston Torrington Warren Watertown Winsted</p>
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<p>Bristol-Burlington Health District 240 Stafford Avenue Bristol, CT 06010 860-584-7682 www.bbhd.org</p>	<p>Bristol Burlington</p>
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<p>Farmington Valley Health District 95 River Road, Suite C Canton, CT 06019 860-352-2333 www.fvhd.org</p>	<p>Barkhamsted Farmington New Hartford</p>	<p>Colebrook Hartland</p>
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<p>CHESPROCOTT Health District 1247 Highland Avenue Cheshire, CT 06410 203-272-2761 www.chesprocott.org</p>	<p>Wolcott</p>
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<p>Plainville – Southington Regional Health District 196 North Main Street, Southington, CT 06489 860-276-6175 www.pshd.org</p>	<p>Plainville Southington</p>
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<p>Housatonic Valley Health District 98 Bank Street, Seymour, CT 06483 203-881-3255 www.hvhd.us</p>	<p>Washington</p>
--	-------------------

TOWNS WITH OWN HEALTH DEPARTMENT
Sharon 860-364-9397

STARTING A SMALL BUSINESS IN NORTHWEST AND CENTRAL CONNECTICUT

III. STARTING A HOME BASED BUSINESS

BACKGROUND

It is estimated that approximately 40 percent of the small businesses in Litchfield County are home based. The 2010 census estimated the number to be around 8,000. The trend is upward.

One issue facing the entrepreneur starting a home based business in Connecticut is that each city and town has different rules regarding what types of businesses are allowed in residences, what permits and fees are required, what activities can occur on the premises, how many and what family relationship employees in the home are allowed, whether and what types of signage is allowed, etc., etc., etc.

It is especially important to determine what your city or town rules are!

In a survey of 24 cities and towns in the Northwest Connecticut area performed by the Town of Harwinton Economic Development Commission in 2015 regarding the zoning regulations for home based businesses, the following was discovered.

1. Rules vary from town to town with very little consistency.
2. Typical constraints are:
 - Constraints on outside appearance and signs.
 - Limits on the number of customers allowed in the home.
 - Limits on the number and relationship of employees in the home.
 - Limits on what can be sold on the premises.
 - Parking restrictions.
 - Limits on the % of floor space than can be used for the business.
 - Restrictions on outbuilding use.
3. Enforcement varies from town to town.

Another important issue is the necessity of separating the business activities from routine family activities. In addition, separating the business part of the home from the living areas is important for tax reasons.

Some issues that starting a home based business that should be considered in addition to those covered in Section II are as follows.

IS HOME THE RIGHT PLACE?

- Can you operate the business alone with little help?
- Do you have to have contact with your customers?
- Is the location such that distributors, sales staff, clients, and others can reach it easily?
- Can the business really be operated from the home?
- Do you have separate spaces for storage, records, isolation, parking, etc.?
- Can your business in a home compete?
- Can you work interrupted by family, neighbors, friends, household eruptions, etc.
- Can you work alone?

INSURANCE

**► YOU WILL NEED SEPARATE INSURANCE FOR YOUR BUSINESS!
TOO OFTEN IT IS ASSUMED THAT HOMEOWNERS INSURANCE IS
SUFFICIENT!**

Homeowners or renters insurance generally does not cover business assets or activities. Business liability is not covered by homeowners liability insurance.

It is important to check with a commercial insurance broker or agent to obtain proper coverage. Depending on what type of business you are contemplating, these are some insurance options.

1. **Homeowner's Policy endorsement** to cover business equipment and liability for customers and delivery people.
2. **In Home business policy.** Can include equipment and liability as above along with Protection for loss of income, extra expenses, and product or services liability.
3. **Business owner's policy** especially if your business is in more than one location.

If you have employees you will also have to get workers compensation and unemployment insurance.

TAX CONSIDERATIONS

Standard business taxes apply to home based businesses just like any other business. Items that are sometimes overlooked or not understood include:

- There will be property taxes on all the business equipment and real assets of the business. (Your town assessor will be notified by the State Department of Revenue Services of the existence of your business.)
- Deductions for expenses related to the use of the house must follow strict IRS rules.

IRS CONSIDERATIONS

SEE IRS Publication 587, BUSINESS USE OF YOUR HOME (Including Use By Daycare Providers)

- The IRS specifies that a home-based business must have its own location away from the family living space that is devoted exclusively to the business.
- The business must be in regular operations, profits must exceed expenses in order to claim deductions, the business must be conducted almost exclusively in the home, and the motive must be profit (no expensing hobbies).
- To be safe, plan to have dedicated computers, telephone lines, copiers, FAX, and other business equipment separate from that used by the family. **(Don't claim the kitchen table even if you work at it occasionally)**

AVERAGE START - UP COSTS \$10,000

EXAMPLES

LOCAL FEES AND PERMITS	BOOKKEEPING/ACCOUNTANT
LLC/INCORPORATION	ASSOCIATION/TRADE GROUP DUES
LEGAL FEES	INVENTORY
INSURANCE	ADVERTISING
OFFICE FURNITURE	BUSINESS CARDS
PHONE/FAX/INTERNET	BROCHURES
COPIER	OFFICE SUPPLIES
COMPUTER AND SOFTWARE	POSTAGE
MEETING SPACE RENTAL	DELIVERY (FedEx, ETC.)
WEBSITE COSTS	TRAVEL/MILEAGE

This is for the office costs. Depending on the business, additional costs might include vehicles, inventory, etc.

STARTING A SMALL BUSINESS IN NORTHWEST AND CENTRAL CONNECTICUT

V. FORMING A NOT-FOR-PROFIT ORGANIZATION

BACKGROUND

Forming a not-for-profit organization is allowed under Section 501(c) of the Internal Revenue code and must follow some strict guidelines. There are two general categories of not-for profits.

Section 501(c)(3) organizations include those that benefit the general public formed for charitable, literary, educational, religious, scientific, product safety and other such purposes. These can receive tax deductible contributions under most circumstances.

Other Section 501(c) organizations can be tax exempt other than receiving tax deductible charitable contributions. These include such organizations as labor organizations, chambers of commerce, social clubs and employee associations.

NOTE: The reader is referred to the following sources of information for a complete coverage of the process for starting a not-for profit enterprise. The purpose of this document is to alert the reader to some key aspects and not to repeat or paraphrase already existing documentation.

1. A concise summary of this topic is found in the book "**STARTING A SMALL BUSINESS IN CONNECTICUT**" as noted on page 2. Refer to Chapter 14, "Starting a Not-For-Profit Organization" for a relatively thorough discussion of the legal and tax implications for this option.

2. Refer to IRS Publication 557, "**TAX-EXEMPT STATUS FOR YOUR ORGANIZATION**", and IRS Publication 4220, "**APPLYING FOR 501(c)3 TAX-EXEMPT STATUS**". Both publications can be downloaded from the internet from www.irs.gov under the "**Charities & Nonprofits**" page along with other useful information.

NOTE: The following is not meant to recommend any specific type of non-profit organization nor does it offer any legal interpretations. The purpose is to inform the reader of some of the options available for those starting a business and to provide some sources of information for the prospective business owners to evaluate pertinent options.

START-UP STEPS FOR NOT-FOR PROFIT ORGANIZATIONS

1. Develop a Charter. This is a document that defines the organization, also known as a constitution or articles of incorporation, usually prepared by an attorney experienced in setting up not-for profit organizations. Detailed guidance for preparing the charter is found in IRS Publication No. 557, "**Tax-Exempt Status for Your Organization,**" In order to be granted tax-exempt status by the IRS, the Charter must include the following;

- **A Mission Statement** that clearly and succinctly defines why the organization will exist. Along with a statement of the goals, it includes a description of what activities the organization will carry out to accomplish those goals.
- **Use of Funds** - private individuals must specifically be prohibited from benefiting from the net earnings (or "surplus") of the organization.
- **Limits of Power** - the organization is limited to tax-exempt activities specified in its Mission Statement.
- **Legislative Activities** - in general the organization is prohibited from influencing or working for political candidates or for/against legislation.
- **Dissolution** - The law requires that if the organization goes out of business the assets must be distributed to another tax-exempt organization or government agency for a public purpose.

2. Develop BY-LAWS

By-Laws for the operation of the organization under the Charter must be developed.

3. INCORPORATE

Once the organizational documentation is developed, the organization then incorporates by registering with the Connecticut Secretary of State (www.sots.ct.gov) as a not-for-profit, non stock corporation and paying the requisite fees.

4. Obtain a Federal Employer Identification Number (EIN)

This is required whether or not the organization has, or plans to have, employees. Use IRS Form SS-4 which is available on the IRS website www.irs.gov.

5. Obtain a State of Connecticut Tax Registration Number

All corporations in Connecticut must have one. Apply at the State Department of Revenue Services www.ct.gov/drs.

6. Qualify as a Not-for-Profit Organization

To become a not-for-profit, the organization must apply to and be recognized as such by the Internal Revenue Service. For guidance, refer to the IRS Publication 4220 "**Applying for 501(c)3 Tax-Exempt Status**" noted on the previous page.

The State of Connecticut will recognize the organization's tax-exempt status upon receipt of a copy of the IRS 501(c)3 ruling letter.

SOME KEY FORMS

IRS: (from www.irs.gov)

Form 1023 - *Application for Recognition of Exemption Under Section 501(c)3 of the Internal Revenue Code, and its Instructions for Form 1023*

Form 1024 - *Application for Recognition of Exemption Under Section 501(a) and its Instructions (Other Section 501(c) organizations)*

Form SS-4 - *Application for Employer Identification Number*

State of Connecticut

State of Connecticut Tax Registration application on line at www.ct.gov/drs .

GRANTS

Generally most grants are for specific issues, usually for no-profit organizations, government agencies, or for existing businesses for economic development purposes.

The clearing house to find out about all available federal grants, who qualifies, and for what purposes is at www.grants.gov.

The most comprehensive source of information about grants from foundations is the **Foundation Center**, at <https://fconline.foundationcenter.org>. This is a subscription service but also has extensive free information. It has an online orientation to grant seeking, which will take you through the funding research process step by step. A fee entitles you to access to over 160,000 granting entities. Access to the data base is currently available at the Simsbury Library.

For information about grant availability from the State of Connecticut, try the Department of Economic and Community Development at www.ct.gov/ecd.

Some local granting organizations in the areas served by the Northwest Connecticut SCORE Chapter are:

Community Foundation of Northwest CT
33 East Main Street
Torrington, CT 06790
860-626-1245
www.northwestcf.org

Main Street Community Foundation
120 Halcyon Drive
Bristol, CT 06010-2702
860-583-6363
www.mainstreetfoundation.org

Thomaston Savings Bank Foundation, Inc.
P.O. Box 907
203 Main Street
Thomaston, CT 06787
860-283-1874
www.thomastonsavingsbank.com

Farmington Bank Foundation, Inc.
P.O. Box 310948
Newington, CT 06131
860-677-4541
www.fbcfct.com

Union Savings Bank Community Foundation
203-872-1866
www.unionsavings.com/why-usb/giving-back-community/#foundation

For Northwest Litchfield County

Berkshire Taconic Community Foundation
800 N. Main Street
P.O. Box 400
Suffield, MA 01257
413-229-0370
www.berkshiretaconic.org

RELATED RESOURCE

Connecticut Non-Profit Alliance

This is a trade association with approximately 500 member Connecticut non-profits.
<https://ctnonprofitalliance.org>

STARTING A SMALL BUSINESS IN NORTHWEST AND CENTRAL CONNECTICUT

VI. FINANCING A START-UP

A. FUNDING SOURCES

One of the more frequent topics brought to SCORE counseling sessions is how to finance the business start-up. Unless the entrepreneur has sufficient financial resources on his or her own, outside financing is required. Among the most common means are the following.

1. Personal or family funds
2. Commercial loans
3. Venture Capital Funds
4. Angel Financing

B. SOME MYTHS: Some questions encountered often by SCORE counselors.

1. Where are the grants? - Answer: Essentially none for small business startups.

Despite claims to the contrary on late night TV, there are almost no federal government grants for profit making business start-ups. Grant information sources are discussed in the previous section entitled **FORMING A NOT-FOR-PROFIT ORGANIZATION**. For a general discussion regarding federal grants, go to www.grants.gov. For agricultural businesses in Connecticut try <https://portal.ct.gov/DOAG/Commissioner/Commissioner/Agency-Grants-and-Loans>

2. Can I get 100% financing from a lender? - Answer: Generally NO.

Lenders generally want 25 to 35 percent of the funding for a new business venture to be put up by the business owners.

3. Can I get a loan from the US Small Business Administration (SBA)? Answer: Generally NO.

The SBA generally guarantees loans provided by banks and other approved lending institutions. To obtain a "SBA" loan, you have to satisfy the lender's requirements.

4. If I have lousy credit and or a recent bankruptcy can I get an SBA loan? Answer: Not likely!

5. Do I really need a business plan? Answer: Almost always!

C. FUNDING OPTIONS

There is a basic concept that sometimes is misunderstood by business owners that comes up in SCORE counseling. This is the difference between debt and equity financing. Loans that are to be repaid are debt. Equity financing means that the supplier of the funds assumes an ownership interest in the business. Thus, a bank loan, for example, is debt that is expected to be repaid. Venture capital usually is in exchange for a part ownership in the business. It is important to understand the difference. Issues of control of the business are involved, as are distribution of profits and sale of the company.

In almost all instances when outside funding is sought, the lender will require a business plan along with the loan application documents. A business plan, among other things, outlines the funding requirements for starting the business and how the loan will be repaid. Business plan basics are covered in the following section "**BUSINESS PLAN BASICS**".

1. Personal or Family Funds

Most small business startups involve family and/or friends' funds either as loans or as investments in an equity share of the venture. If you are considering this option as part or all of your initial funding, it is strongly recommended that you enter into a formal written legal contract regarding ownership rights and governance at the very start of the venture. If loans are involved, formal loan documents covering payments, security, etc. should be part of the transaction.

Friends may be friends, and relatives are close, but what happens if serious disagreements arise down the road? Who has the decision powers about what issues? If a divorce occurs or one of the key participants dies or wants out, how are the business assets allocated? We strongly recommend that an agreement between the parties involved be reviewed or developed by an attorney experienced in the subject.

2. Commercial Loans

In order to obtain a commercial loan from a lending institution, such as a bank or loan fund, you must satisfy their requirements for qualifying for the loan.

► Each institution has its own rules and regulations, so the advice to the prospective borrower is to visit the commercial loan office of your bank or lending institution and ask them what they want with a loan application and if you would qualify.

Lenders also typically want the resumes of the principals, three years of tax returns, personal credit history of all the principals, and collateral. A personal guarantee is almost always required.

One program that the Small Business Administration (SBA) supports is the SBA loan guarantees. For loans that the lenders consider to be of higher than normal risk, the SBA guarantees a significant percentage of the loan. This reduces the risk to the lender.

For a list of lenders that are considered "active" by the SBA in Connecticut, go to www.sba.gov/ct. The direct link, as of this printing, is:

<https://www.sba.gov/document/support-connecticut-lender-list>

Once you have determined whether you will be considered for a loan, prepare the application according to the requirements of the lender.

In addition to loans guaranteed by the SBA, there are guarantees to lenders through the U.S Department of Agriculture **Business and Industry Loan Guarantees**. This program guarantees bank loans in a manner similar to the SBA programs, but is aimed at rural areas and has higher dollar limits. **Most of Litchfield County outside of Torrington and New Milford is classified as rural for this program.**

Loans in this program are for almost any kind of business in a rural area, and include not-for-profit enterprises.

For information on this program, contact the Department of Agriculture at

USDA Rural Development
Rural Development Guaranteed Programs
Southern New England Jurisdiction
Windsor Area Office
100 Northfield Drive
Windsor, CT 06095
(860) 902-5382
www.rd.usda.gov/ct

3. Micro Loans

The SBA Micro-loan program offers loans up to a maximum of \$50,000. The average loan is \$13,000. For more information, go to www.sba.gov/content/microloan-program.

Three of the organizations in Connecticut that offer the Microloan program.

Community Investment Corporation
2315 Whitney Avenue – Suite 2B
Hamden, CT 06518
(203) 776-6172
www.ciclending.com

Community Economic Development Fund

965 East Main Street

Meriden, CT 06450

(203) 235-2333

www.cedf.com

HEDCO Inc.

207 Main Street, 4th floor

Hartford, CT 06106

860-527-1301

www.hedcoinc.com

4. Venture Capital Funds

Venture capital funds and investors provide financing for start-up or early-stage businesses in exchange for an ownership share of the business. They make their money basically by helping new businesses in the expectation that their share can be sold at some later date for a profit - in addition to sharing any business earnings.

A key consideration for the entrepreneur is the issue of control of the business. As with conventional lenders, venture capitalists want to see your business plan. Venture capital investments are typically in the \$million plus range.

To find out more about venture capital resources in Connecticut, go to the several websites listing these resources. If you enter "Venture Capital in Connecticut" into a Google search, you will get more information than you need to find sources.

5. Angel Investors

Angel investors are individuals who invest in businesses. Their participation depends on the circumstances of the business. They also want to see your business plan.

Angel investments are typically smaller than those of venture capitalists, and are made expecting a very high return.

The **Angel Investor Forum** is an organization representing most of the angel investors in Connecticut. For information, go to www.angelinvestorforum.com.

Other possible sources.

- **Angel Capital Association**, www.angelcapitalassociation.org which represents 240 professional angel groups and over 13,000 individual investors.

- **Angel Capital Education Foundation**, www.fundingpost.com, a non-profit organization which has extensive resources for entrepreneurs looking for guidance with angel investors.
- **GUST**, www.gust.com, which is a fee based service relating 14,000 investors, including 450 angel groups. Its service standardizes the submission process for application for funding.

5. Crowdfunding

This is a process for obtaining through online solicitation for funds from the general public. Rules and regulations for how this works for raising capital for business are still being formulated.

D. ADDITIONAL SOURCES

Loans - Central Connecticut Revolving Loan Fund

Administered through the Greater Bristol Chamber of Commerce, this fund is for new or expanding businesses to purchase property or equipment. Proceeds must create jobs and build or expand in Central Connecticut - the area served by the Chamber of Commerce. Contact the Greater Bristol Chamber of Commerce at (860) 584-4718.

The City of Bristol offers many economic development opportunities to new and existing businesses. Please contact the Bristol Economic and Community Development Authority (860-584-6185) for information on existing programs

STARTING A SMALL BUSINESS IN NORTHWEST and CENTRAL CONNECTICUT

VI. BUSINESS PLAN BASICS

A business plan is a document that explains how a company will operate, what resources are required, and what the financial results are likely to be. No lending organization will consider an application without one (unless maybe it is the Bank of Mom). One possible outcome of the planning exercise might be that the idea is not viable financially, so you will be forewarned.

There are as many formats for business plans as there are people telling you that you need one. Software abounds with claims of "can't miss plans", or "sure fire results". However, many are unduly complex and overly comprehensive, and many people end up with nicely packaged nonsense.

It is strongly recommended that before starting on your plan you ask the potential lender what format they prefer. Many banks in the area covered in this ask for some version of the sample offered by the US Small Business Administration on their website www.sba.gov/ct. (A copy is included here as Attachment B at the end of this guide.) A sample from one local bank is shown in Attachment C.

Common to almost all formats are several key plan components. These are outlined in the following sections. Once these are completed, they can easily be incorporated into almost any format. **It is strongly recommended that you develop the plan yourself.** You need to know the details of the plan and the reliability of the data and assumptions if you are to actually start and run the business. Also, when questions are asked by your potential lender, you will be able to defend your plan intelligently.

The key components are as follows.

1. **Description of the Business**

This is not always as easy as it might seem. For example, you can't just say that you will start a restaurant. You need to be specific about the market segment and the specific niche you hope to fill.

For example, if you are going to open a branch office, will it be a full service location, reflect the original site, offer something different, be separately or remotely managed, etc.

2. Marketing Plan ► This is where you develop your revenue projections!

This is where you forecast the revenue for the business. It entails identifying the customers and the competition, how you plan to sell to the customers, and forecast your revenue. Some key issues to be covered are:

- * What economic factors should be considered? Changes in laws, demographics, regulations, etc.
- * Who are the customers for your business?
- * Where are they?
- * How do they make buying decisions?
- * How do you reach them?
- * Who are the competition?
 - > Where are they?
 - > How do they operate, sell, etc?
 - > Are they any good? And why?
 - > What will you do that is better? i.e., why would customers buy from you?
- * What is your marketing plan and strategy? How are you going to get people to buy from you? How will you differentiate yourself from your competition?

Based on this analysis, what's the projected revenue? (The money coming in.)

3. The Operating Plan. ► This is where most of the money goes!

This is where you describe how you will produce and deliver your product or service. This part of the plan describes how you are going to run the business and what resources you are going to need to start up and then run the business

Here you itemize everything that you need to start and then run the business.

EVERYTHING THAT COSTS!

- * Capital resources required.
- * Personnel required
- * Operating requirements and costs.
 - operating facilities and equipment.
 - Utilities (heat, light, phone, vehicles, etc.)
 - Rent
 - Insurance
 - etc.

4. **The Management Plan ► Who is in charge of what?**

This segment discusses who will manage the business and what their qualifications and experience are. Lenders will be particularly interested in who will be in charge of what in the business. Include resumes of the key players in the Appendix.

Typically, lenders will expect at least three years of experience in a related business for at least one of the key members of management.

Also, don't say in a partnership "all decisions will be shared". Identify the person who will have the ultimate decision responsibility.

5. **THE FINANCIAL PLAN ► The projected financial results for the business**

- A projected **Profit and Loss** projection, usually by month for the first year and then by quarter for the next two to four years, depending on the requesting agency.
- A monthly **Cash Flow** projection with the following two to four years by quarter. **Lenders typically are very interested in the cash flow projections in order to evaluate the ability to pay back the loan.** A sample cash flow projection is shown in Attachment D.
- **Balance Sheet** projections.

Lenders also frequently require a **break-even analysis** - the sales level necessary to cover operating and fixed costs, and a "**sources and uses**" table showing where the startup funding will come from and what it will be used for.

6. **THE EXECUTIVE SUMMARY ► A single page that sums up what the plan says.**

Do this after you are all done and have something to summarize. Brief and right to the point! Tailor it to the intended audience. (An amazing number of SCORE clients start off by writing the summary? What are they summarizing?)

RESOURCES

There are almost an infinite number of sources for advice and assistance in developing a business plan. If you do a search on Google inputting "Business Plans", you get a list of lists covering several hundred sites. It's a crowded market, and there are lots of claims to "sure-fire" plans, etc. We include here a short list that has been especially useful for our SCORE counseling.

1. **US SMALL BUSINESS ADMINISTRATION** website www.sba.gov/ct has extensive information for small businesses. Specific to planning under "**Business Guide/Plan your Business/Write your Business Plan**"
Also publishes for free "**CONNECTICUT SMALL BUSINESS RESOURCE**", a comprehensive guide to resources available in Connecticut (860) 240-4700
(Also downloadable from SBA home page.)
2. **BUSINESS PLANS HANDBOOK.** An 11 volume set available online for free. Has many sample business plans that are downloadable free.
(www.referenceforbusiness.com)
3. www.BPlans.com. Has 500+ free sample business plans for a variety of businesses along with other free information on starting up a business. Company sells proprietary software.
4. **Regional Planning Agencies.** Each town and city Connecticut is served by a regional planning agency. They provide the data and resources for the various public agencies in their regions. Lists for the towns covered in this guide are given in Attachment A on page 30.
5. **LIBRARIES** - many local libraries have extensive reference collections relative to business planning. One that has proprietary data bases that are available only to their library cardholders or at the library is;

SIMSBURY PUBLIC LIBRARY, BUSINESS RESOURCE CENTER
(860) 658-7663) . Offers extensive business references and periodicals and on-line access to many business data banks. . www.simsburylibrary.info.

6. CHAMBERS OF COMMERCE.

Free counseling and guidance for all aspects of starting a business and business planning are available at the two major Chambers of Commerce in the NWCT SCORE service area. Counseling and assistance by SCORE and the Connecticut Small Business Development Center (CSBDC) are available. For appointments call **Northwest Connecticut Chamber of Commerce** in Torrington, (860) 482-6586 and **Central Connecticut Chambers of Commerce** in Bristol, (860) 584-4720. See information at www.northwestconnecticut.score.org.

ATTACHMENT A REGIONAL PLANNING ORGANIZATIONS

All of the towns served by the Northwest Connecticut Chamber of Commerce and the Greater Bristol Chambers of Commerce belong to a regional planning organization. These agencies are responsible for economic planning and for keeping information regarding the economic development of their respective regions.

Some have more detailed data bases than others. It is suggested that when developing a business plan that the available data from the local planning organization be reviewed. For those towns in the Northwest Hills Council of Governments, there is an extensive analysis of the economic and demographic characteristics for the twenty towns it covers.

The following agencies cover the cities and towns in our Northwest Connecticut SCORE service area.

NORTHWEST HILLS COUNCIL OF GOVERNMENTS

42D North Street, Goshen, CT 06756, (860) 491-9884

www.northwesthillscog.org

Barkhamsted	Hartland	New Hartford	Sharon
Burlington	Harwinton	Norfolk	Torrington
Canaan (Falls Village)	Kent	North Canaan	Warren
Colebrook	Litchfield	Roxbury	Washington
Cornwall	Morris	Salisbury	Winchester
Goshen			

CAPITOL REGION COUNCIL OF GOVERNMENTS

241 Main Street, 4th Floor, Hartford, CT 06106, (860) 522-2217 x232

www.crcog.org

Farmington Southington Canton Plainville

NAUGATUCK VALLEY COUNCIL OF GOVERNMENTS

49 Leavenworth St., #303, Waterbury, CT 06702

www.nvcogct.org

Bristol Plymouth Thomaston Wolcott

For a complete list of the Connecticut regional Councils of Government, go to

<http://www.ct.gov/opm/cwp/view.asp?q=383046>

ATTACHMENT B

BUSINESS PLAN OUTLINE (From SBA)

(Go to www.sba.gov/ct.)

Elements of a Business Plan.

- 1. Cover sheet**
- 2. Statement of purpose**
- 3. Table of Contents**

I. The Business

- A. Description of business
- B. Marketing
- C. Competition
- D. Operating procedures
- E. Personnel
- F. Business Insurance

II. Financial Data

- A. Loan applications
- B. Capital equipment and supply list
- C. Balance sheet
- D. Breakeven analysis
- E. Pro-forma income projections (profit & loss statements)
- F. Three year summary
- G. Detail by month, first year, by quarters, second and third years
- H. Assumptions upon which projections are based
- I. Pro-forma cash flow

III. Supporting Documents

- A. Tax returns of principals for last three years Personal financial statement (all banks have these forms)
- B. For franchised businesses, a copy of the franchise contract and all supporting documents provided by the franchisor
- C. Copy of proposed lease or purchase agreement for building space
- D. Copy of licenses and other legal documents
- E. Copy of resumes of all principals
- F. Copies of letters of intent from suppliers, etc.

ATTACHMENT C

BANK LOAN QUESTIONNAIRE OUTLINE

Banks and lenders almost universally ask for a business plan to accompany a business loan application. Details vary by lending institution, but the basic information requested is almost always the same.

The following is an abstract of a Business Plan Summary required by a local community bank.

Business Plan Summary

Background Information

Business Concept: Describe the products and services you will offer.

Company: Explain the ownership and business structure.

Company History: (Business background; # of employees; how long in business, etc.?)

Company Strengths: What are your major competitive advantages?

What is your market potential?

Management Team: Who is your management team and what experience do they have?
(Include Resumes)

Funding Needs: What have you invested in your company?

Financial Projections

Financial Projections for two years from the start of the business.

- **Monthly cash flows, including capital infusion, loan principal payments, and owner withdrawal – all cash transactions!**

“The revenues and expenses projected on the income statement need to reflect as accurately as possible the anticipated cost of running the business. You should include both fixed and variable expenses and have these projections reviewed by an accountant.”
“In addition, you should provide a detailed list of all financial assumptions to support the projected income and expenses.”

- **The list of assumptions should be attached to this plan along with a detailed Sources and Uses of Funds worksheet.**
- **Balance Sheet.**

“The balance sheet should represent the actual assets that will be owned by the business as of the first day of operations or as of a recent financial period end date if the business is up and running.”

The balance sheet lists the assets (what you own) and liabilities (what you owe) and calculates the difference (the net worth).

If available, please include:

- Facts about your industry, size of market, current demand in your market.
- Growth history, trends, potential, and opportunities for your business.
- Any barriers to entry in your market (capital intensive, unique skills, proprietary technology, etc.)
- Impact to your business from potential changes in technology, government regulations, and the economy.
- Identify your target market (age, gender, location, industry, etc.)
- Identify your major competitors.
- Identify your unique niche in the market.
- Advertising: what media channels, if any, will be used?
- Identify the product or service pricing strategy?
- Describe the location as it pertains to: customer accessibility, convenience, parking and competitors.
- Explain the distribution channel to be used to sell your products (retail, wholesale, agents, etc.).
- Attach any of the additional items if available:
 - Brochures and advertising materials.
 - Industry or market research studies.
 - Plans and photos of location.
 - Any other materials to support this plan.
 - Detailed list of equipment owned or to be purchased.
 - Copies of leases and contracts.
 - Letters of intent from future customers.

Operating Plan.

If available please also include:

- Identify the production methods including costs, quality control, inventory control, & production development.
- Identify the production sites including storage areas and other buildings. Will the buildings/space be leased or owned?
- Describe the following: Licensing requirements, permits, regulations, zoning/building code requirements, trademarks, copyrights, and patents.
- Identify the number of employees, key employees, skills, pay structure, training, recruitment, and hiring strategies.
- Communicate the inventory needs: average value in stock, rate of turnover, seasonal buildups, and anticipated order lead times.
- Provide a list of suppliers.
- Explain the proposed credit policy for extending credit to customers, including whether discounts will be offered.

ATTACHMENT D

The Cash Flow Statement

A **cash flow statement** is the financial document that presents income actually received and expenses actually paid. This statement (usually modified for a small business) generally shows beginning cash balances, cash inflows, cash outflows and ending cash balances. In its simplest form, a cash flow statement is presented in the following format:

- Beginning cash balance
- Plus cash inflows
- Minus cash outflows
- Equals ending cash balance.

Sample cash flow statement for a new business (beginning cash balance is \$0):

Beginning Cash Balance	\$0.00
Cash In	
-Cash Sales	\$31.00
-Accounts Receivable Collections	\$20.00
-New Loans	\$30.00
-New Investment	\$15.00
Cash Out	
-Equipment Purchased	\$24.00
-Expenses Paid	\$26.00
-Inventory On Hand	\$33.80
-Principal Payments	\$1.00
Ending Cash Balance	\$11.20

There are many free resources available to help you prepare your financial statements and understand the basics of business accounting. For a deeper dive into this topic, SBA offers a free online course: [Introduction to Accounting](#) through its [SBA Learning Center](#). The course also includes automated financial statement templates.