

# Legal and Administrative Steps to Start a Business

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# Mason SBDC counseling

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- **Mission**
  - Positively impact the regional economy.
- **Funding**
  - U.S. Small Business Administration
  - Virginia SBDC Network
  - George Mason University - Mason Enterprise Center
- **Counseling Areas**
  - Marketing, Finance, Business Planning, Taxes/Legal
- **What We Don't Do**
  - Writing your business plan itself, writing your marketing plan, etc...
- **Success Measures**
  - Capital Invested
  - Job Created
  - Revenue Generated
- **Confidentiality**
  - Services are completely confidential.

# Agenda

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1. Registration with government entities
2. Federal tax filing
3. Basic management

# 1. Registration

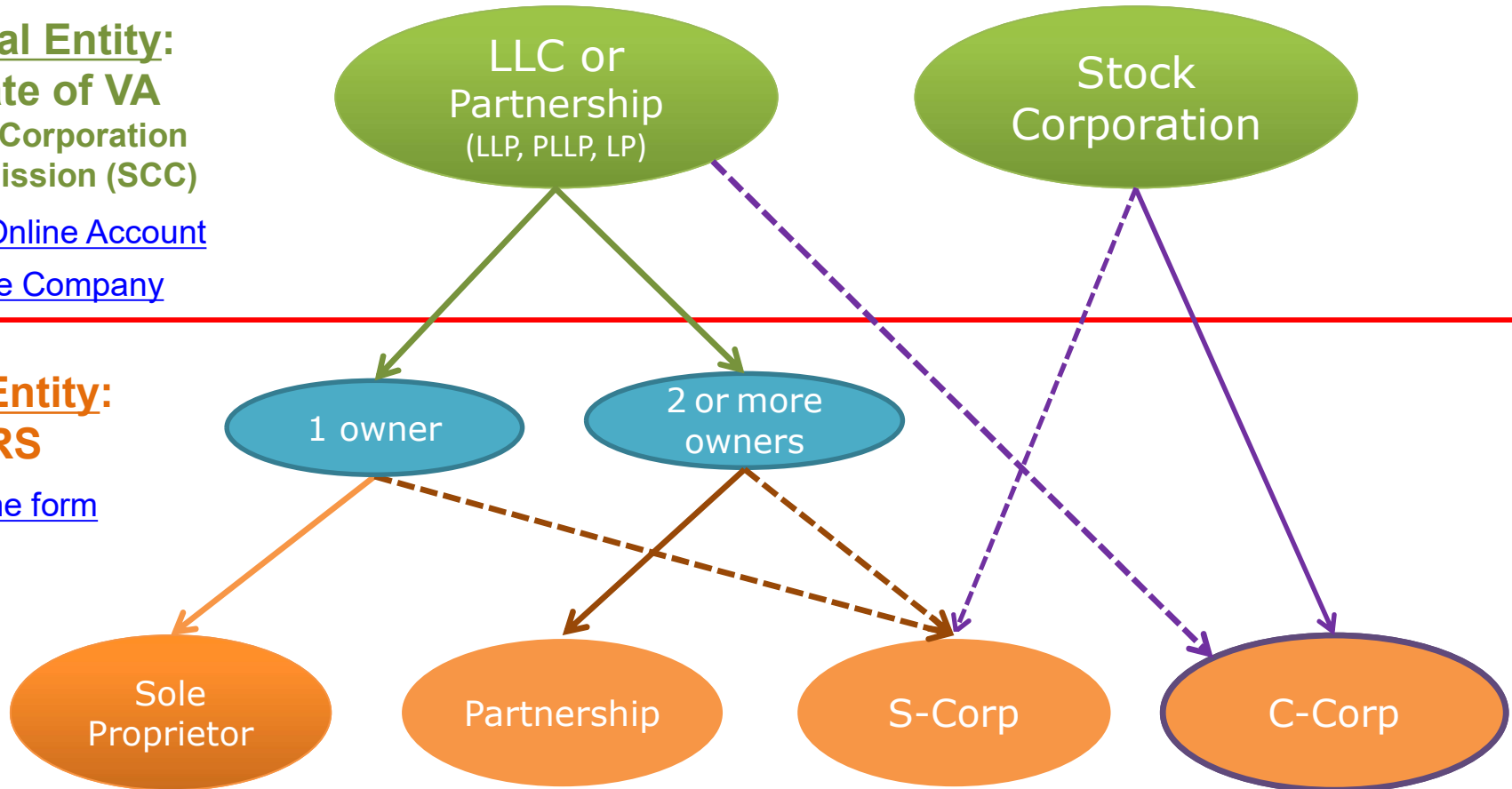
# Legal Entity and Tax Entity

**Legal Entity:**  
 State of VA  
 State Corporation  
 Commission (SCC)

[Create Online Account](#)  
[Create Company](#)

**Tax Entity:**  
 IRS

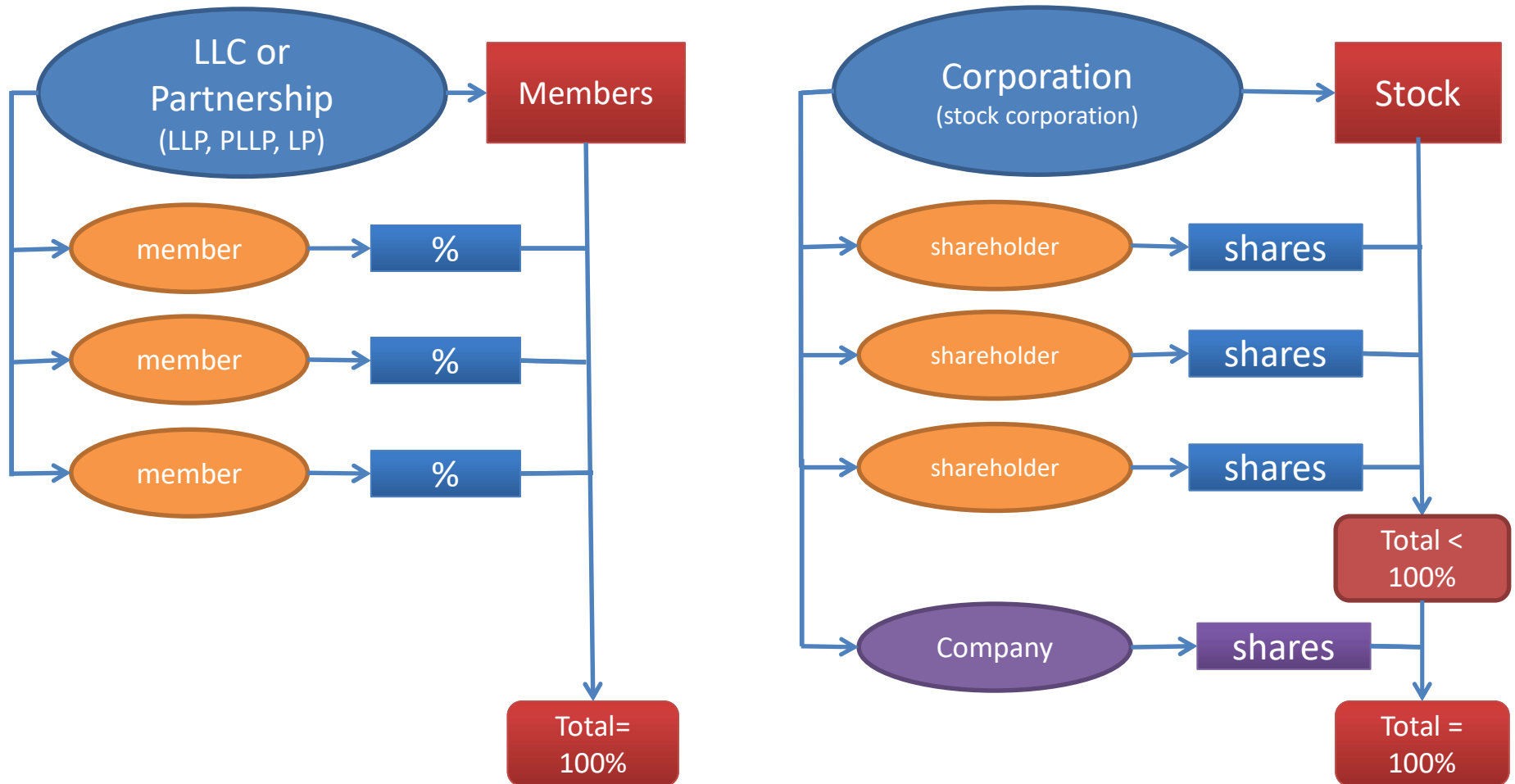
[Online form](#)



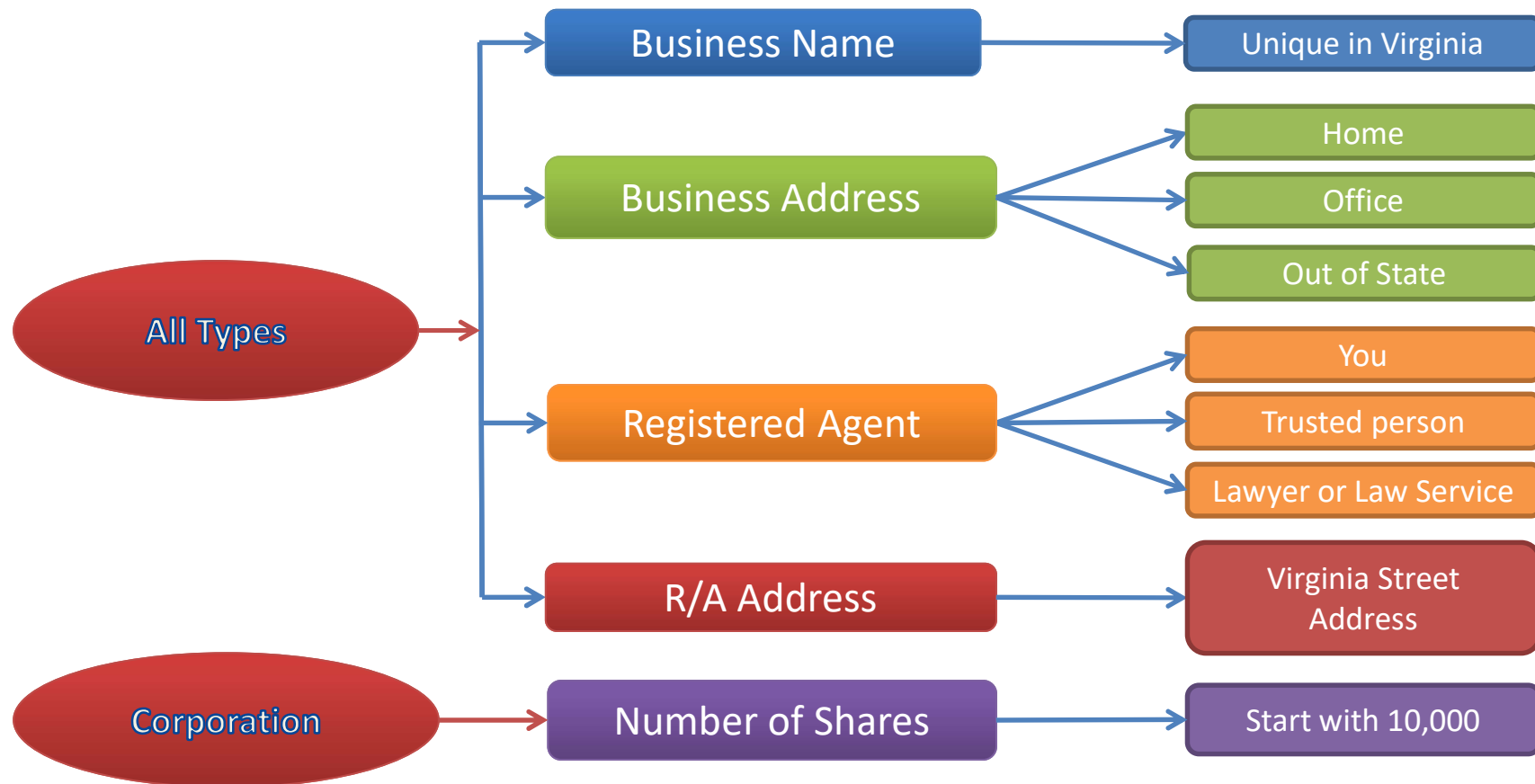
# Legal and Tax Choices

Legal Entity	Tax Classification			
	Sole Prop.	Partnership	S-Corp	C-Corp
LLC 1 owner	✓		✓	✓
LLC 2+ owners		✓	✓	✓
Corporation			✓	✓

# LLC/Partnership or Corporation ?



# Virginia Registration Details



**You can change anything & everything later**

# Registered Agents

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- [NorthWest](#)
- [Virginia Registered Agent](#)
- [LegalZoom](#)
- [ZenBusiness](#)

# Operating Agreement

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- Contract between members or owners
- Should be notarized
- Establishes ownership terms & conditions
  1. Ownership % for partnership members, or number of shares for C corporation shareholders
  2. Control of the decisions
  3. Right of first refusal
  4. Salaries, bonuses, commissions and profit sharing
  5. Shares or %ownership in exchange for no salary (“sweat” equity)
  6. Loans to company by owners
  7. Cash or equipment contributions to company’s capital
- [Example of a multi-member LLC Operating Agreement](#)

***Download a template and/or consult a legal professional***

# IRS Tax ID

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- Get an Employer Identification Number (EIN)
  - Needed for **everything** (state and local taxes, banking, insurance)
  - [IRS Employer Identification Number](#)
- You'll have to give your name, SSN and business address
- [NAICS code](#): find your industry
- Non-profits: read [IRS publication 4220](#).  
**IRS Info at [IRS Small Business Info](#) and [SBA Legal Discussion on S-Corp vs. LLC](#)**



# Virginia & Local Tax Registration

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- Virginia Tax ID
  - Payroll taxes
    - VA Dept of Taxation and VA Employment Commission (VEC) [Online Registration](#)
    - Register in every state where your employees live
  - Sales Tax
    - Only on sales of **goods** to Virginia residents
    - Not on services
    - <https://www.tax.virginia.gov/retail-sales-and-use-tax>
- Virginia Professional Licenses
  - <http://www.dpor.virginia.gov/ProfessionsAndOccupations/>
- County or City (not both) Licenses and Permits
  - Business license (BPOL): [Arlington](#), [Fairfax](#), [Loudoun](#), [Prince William](#)
  - Tangible Property Tax: [Arlington](#), [Fairfax](#), [Loudoun](#), [Prince William](#)
  - Home occupation permit [Arlington](#), [Fairfax](#), [Loudoun](#), [Prince William](#)

# Registration checklist

<input checked="" type="checkbox"/>	Who	Corporation	LLC
<input type="checkbox"/>	You	Do your homework, read docs on VA and IRS websites	
<input type="checkbox"/>	VA SCC	Register Business with Virginia SCC	
<input type="checkbox"/>	IRS	Obtain an Employer Identification Number (EIN)	
<input type="checkbox"/>	VA Tax	Retail or employees: VA Tax ID and VEC ID	
<input type="checkbox"/>	VA	Permits and Licenses for some professions	
<input type="checkbox"/>	County or City	Business Occupational and Professional License (BPOL) Tangible property tax	
<input type="checkbox"/>	County or City	For home office: Home Occupation Permit	

## 2. Federal Taxes

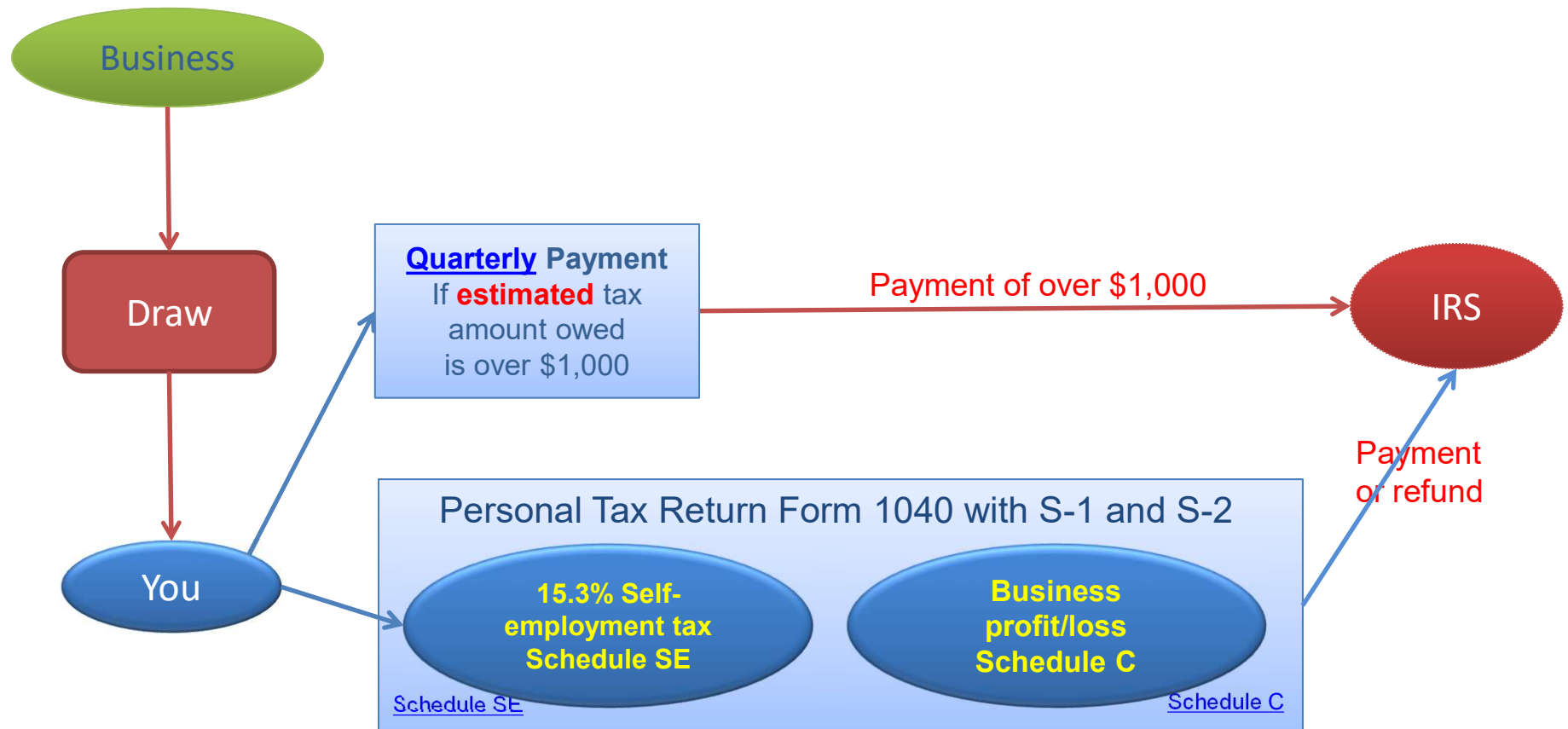
# Federal Taxes

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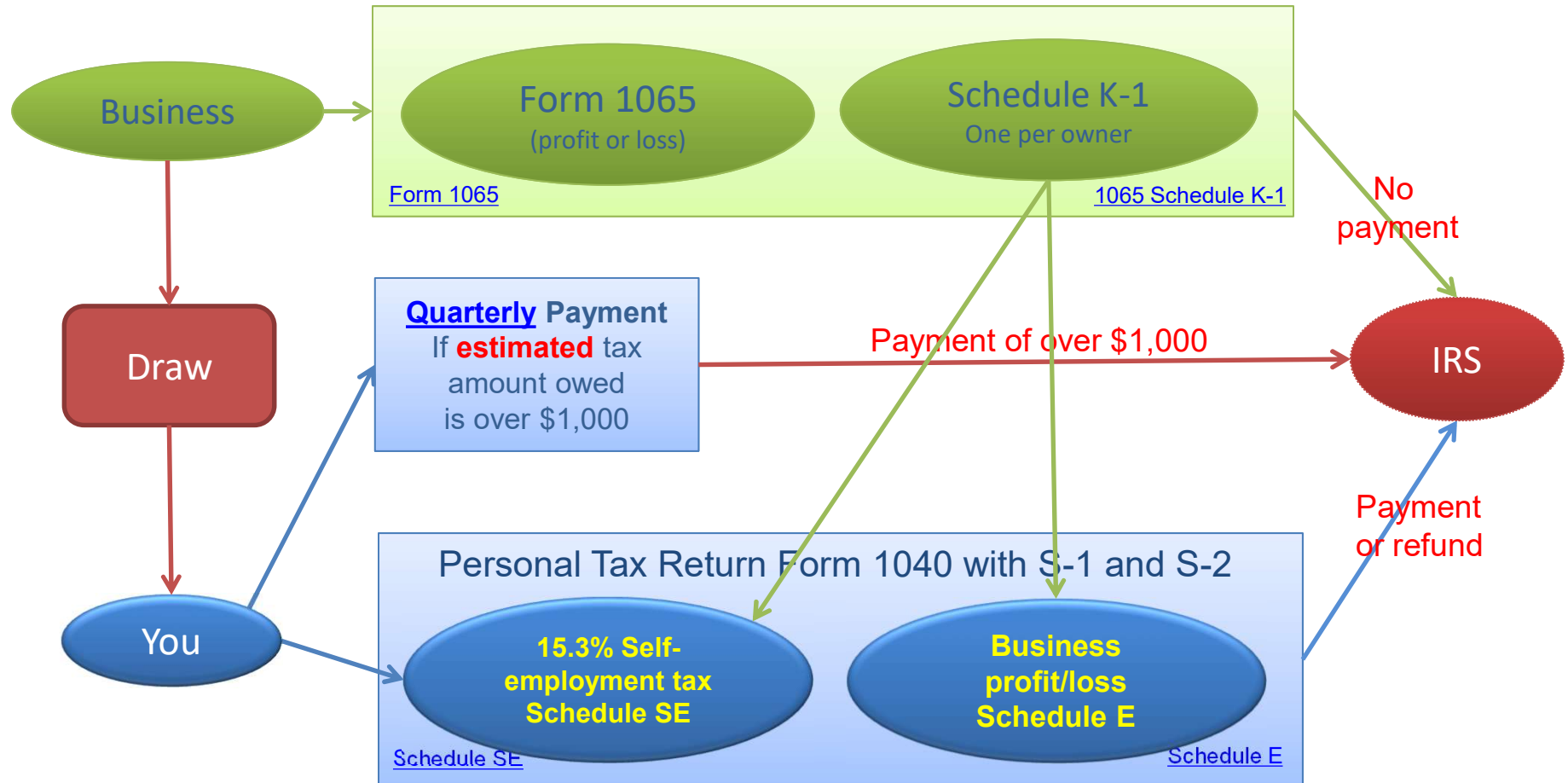
- C-Corp: **double taxation**
  - The company pays income tax on profit, **fixed rate: 21%**.
  - The shareholders pay 15% tax on dividends, **the year the dividends are paid.**
- Sole Proprietor, Partnership and S-Corp: **single taxation**
  - The owners pay income tax on the profit, as regular income, **no fixed rate.**
  - The tax is due **the year the profit is earned.**
  - 20% “Qualified Business Income” deduction on profits < \$100K (with conditions)
  - Sole Proprietors and Partnership members: 15.3% self-employment tax
- Non-taxable retirement savings, 2026 max contributions
  - Sole Proprietors: SEP IRA contributions up to \$72,000/year
  - C-Corp’s and S-Corp’s: SIMPLE 401(k) plan, up to \$24,500
  - Everybody: Traditional IRA contribution, up to \$7,500 or \$8,600 if older than 50

***For more details, consult a CPA or tax professional***

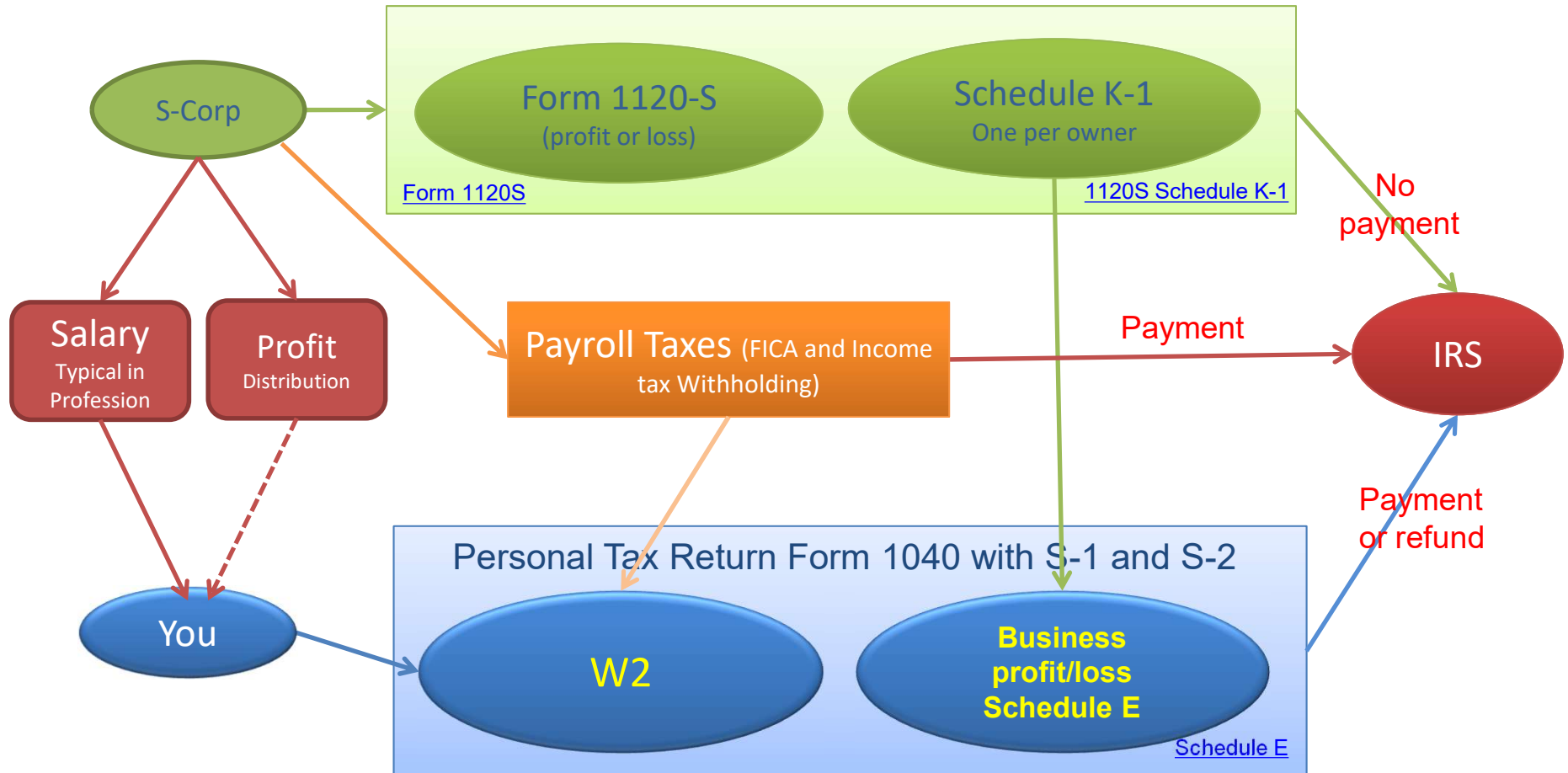
# Sole Proprietor Tax Filing



# Partnership Tax Filing (Multi-owner LLC)



# S-Corp Tax Filing



# LLC v. S-Corp worksheet

LLC							
Total Profit		\$25,000		\$40,000		\$100,000	
Self Employment tax	15.30%		\$3,825		\$6,120		\$15,300

S-Corp							
Total profit		25,000		40,000		100,000	
		Salary	Profit	Salary	Profit	Salary	Profit
Salary/Profit split		80%	20%	80%	20%	80%	20%
Salary		\$20,000	\$5,000	\$32,000	\$8,000	\$80,000	\$20,000
State Unemployment Tax	\$400		\$400		\$400		\$400
Federal Unemployment Tax	\$420		\$420		\$420		\$420
SS/MED on salary only	15.3%		\$3,060		\$4,896		\$12,240
<b>Tax Savings</b>			<b>-\$55</b>		<b>\$404</b>		<b>\$2,240</b>
Payroll processing expense			\$200		\$200		\$200
Accounting & tax preparation			\$500		\$500		\$500
Total additional expenses			\$700		\$700		\$700

<b>Actual savings</b>			<b>-\$755</b>		<b>-\$296</b>		<b>\$1,540</b>
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# Sole Proprietor Tax Filing

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- How you pay yourself
  - NO paycheck, NO W2
  - It's just taking a distribution, or draw, if there's a profit
- Annual filing by LLC: None
- Annual filing by Owners: personal tax return form **1040**
  - **NO W2**
  - **Schedule C: Profit or Loss from Business**
  - **Schedule SE: 15.3% self employment tax**
  - Schedule 1
  - Schedule 2
  - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
  - Optional tax exempt IRA contribution
- Quarterly Payments: **Online** or form **1040 ES**
  - Every quarter if tax amount owed is over \$1,000

# Partnership Tax Filing (Multi-owner LLC)

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- How you pay yourself
  - NO paycheck, NO W2
  - It's just taking a distribution, or draw, if there's a profit
- Annual filing by LLC: **form 1065** (partnership return)
  - Profit or loss: revenue minus expenses
  - One 1065 **Schedule K-1** per owner: share of profit or loss
  - **Due March 15<sup>th</sup>**
- Annual filing by Owners: personal tax return form **1040**
  - **NO W2**
  - **Schedule E**: amount in K-1
  - **Schedule SE**: **15.3% self employment tax**
  - Schedule 1
  - Schedule 2
  - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
  - Optional tax exempt IRA contribution
- Quarterly Payments: **Online** or form **1040 ES**
  - Every quarter if tax amount owed is over \$1,000

# S-Corp Tax Filing

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- How you pay yourself
  - Some profit paid as a **salary** with paycheck, monthly/quarterly payroll taxes, and **W2**
  - Some profit paid as a **distribution**, with no payroll taxes
  - Salary must be “reasonable”, within market range for your profession
- Annual Filing by S-Corp: form 1120-S
  - Profit or loss: revenue minus expenses, **minus gross salary (W2) and payroll taxes**
  - One 1120-S Schedule K-1 per owner: share of profit or loss
  - **Due March 15th**
- Annual Filing by Owners: form **1040**
  - Schedule E: amount from K-1 schedule
  - Schedule 1
  - Schedule 2
  - 1040 Line 1 : amount in W2, plus other income
  - 1040 Line 13 (Qualified Business Income deduction: 20% of profit under \$100K)
- No Quarterly filing/payments by Owners

# IRS Yearly Quarters

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- 1<sup>st</sup>: January-February-March
- 2<sup>nd</sup>: April-May
- 3<sup>rd</sup>: June-July-August
- 4<sup>th</sup>: Sept-Oct-Nov-Dec
- Payment is due the 15<sup>th</sup> day after the end of the quarter
- [IRS Calendar](#)

# LLC vs. S-Corp taxes

What?	LLC	S-Corp
Owners pay	Draw	Reasonable salary
Payroll Taxes	None	7.65% Employee 7.65% Employer
Self Employment tax	15.3% of profit	None
Income Tax based on	Profit minus ½ S/E Tax	W2 + Profit
Quarterly filing	Owner 1040 ES	Payroll taxes 941
Yearly filing	Form 1065	Form 1120-S
Yearly filing	Schedule K-1 (for each owner)	Schedule K-1 (for each owner)
Yearly filing deadline	March 15 <sup>th</sup>	March 15 <sup>th</sup>

# 3. Basic Management

# Employees or Contractors?

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- Independent Contractors (1099)
  - Have them sign a contract: description, schedule and payments
  - Make sure you create an invoice for every payment
  - File Federal and State year-end form 1099
  - **Some very strict restrictions, including:**
    - They must not use any company property (equipment or intellectual property)
    - You are not supervising them
    - You can't dictate working hours
    - They are temporary
    - You can't stop them from working for your competitors
- Full-time or part-time employees (W2)
  - Offer letter signed by you and employee with terms of employment
  - Federal legal employment [verification](#)
  - Employee income tax withholdings – [federal](#) and [state](#)
  - Unemployment tax – federal and state
  - Payroll: use a payroll service (QuickBooks, ADP, Gusto, Paychex, Patriot Payroll, Square)

***The IRS is very strict about independent contractors***  
***Do your research to avoid heavy penalties***

# Business Insurance

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- General liability insurance
  - Required for most businesses
  - \$1 or \$2 million coverage
- Professional/Errors and Omissions (E & O)
- Property insurance
  - Real estate property
  - Equipment, vehicles, inventory
- Workers' compensation insurance
  - Required by law as soon as you have 1 employee or contractor
  - Covers employees' workplace injuries
- Personal Car Liability
- Commercial Insurance Companies
  - The Hartford, Travelers, Farmers, Progressive, GEICO

***Get quotes from 3 companies***

# Finance and Accounting

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- Open a business checking account
  - You need your EIN and Virginia Incorporation certificate
  - Some banks require a minimum amount and charge fee if balance is under \$500
- Get an accounting software or online service
- Record every transaction
  - For every check or credit/debit card charge
  - Keep all receipts – scan paper receipts
  - Create email folders/labels, and computer directories/folders by year
- Separate personal and business expenses
  - Every personal penny you spend for the business should be reimbursed to you by the business
  - Make a monthly personal expense reimbursement report

## ***Strict Separation between Personal and Business Expenses***

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# Personal and Home Office Expenses

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- Use of your personal car
  - Must be for legitimate business purpose
  - Log book with date, mileage where and why
  - Amount allowed by IRS for 2026: [72.5 cents/mile](#)
  - Use a [mileage tracking app](#)
- Home office expenses ([IRS info](#))
  - **Exclusive** use of a portion of your home: \$5/year per Sq Ft (up to 300 Sq Ft)
  - Part of your Internet and cell or fixed line costs
- Professional
  - Professional Training
  - Certifications
  - Subscriptions
  - Memberships
  - licenses

***Monthly expense reports with details and receipts***

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# That's it! You're Ready!

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- Don't hurry, take your time, learn and plan
- Don't hesitate to ask for help
  - Don't be afraid/ashamed of not knowing something.
  - Hire/contract/consult specialists and experts. Get help for free.
- Accounting and taxes
  - Ask a CPA
  - Accounting software
    - Quickbooks, Wave Accounting, AccountEdge, Patriot, Zoho, Dynamics 365, Xero
- Payroll
  - Payroll processor service
    - QuickBooks/Intuit, ADP, Gusto, Paychex, Sure Payroll, Square
- Retail space or office space
  - Get a commercial real estate broker

***Come to SBDC for 1/1 counseling with any question!***

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# Complete checklist

<input checked="" type="checkbox"/>	Where/Who	What
<input type="checkbox"/>	Virginia SCC	LLC or Stock Corporation registration
<input type="checkbox"/>	IRS	Employer Identification Number (EIN). Choose Tax Classification
<input type="checkbox"/>	Virginia Tax Dept	Tax account, for payroll and Sales tax
<input type="checkbox"/>	County or City	Business License (BPOL) and Home Occupation permit
	Bank	Business bank account
<input type="checkbox"/>	You and partners	Partnership or stockholder agreement - Notarized
<input type="checkbox"/>	Insurance Broker	General liability, and professional (E&O) insurance
<input type="checkbox"/>	You (and/or CPA)	Setup accounting and recording
<input type="checkbox"/>	You (or Payroll Service)	Setup payroll for S-Corp, or LLC with employees



# Thank you and Good Luck!

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To Schedule a counseling session:  
Email [help@masonsbdc.org](mailto:help@masonsbdc.org)  
and ask for a session with  
Bernard Ferret