



## Checklist for Professional Startups

Before starting your own business, preparation and safeguarding is essential to protecting yourself, your assets and your newly formed entity. Here are the steps you should consider – *before quitting your job*.

- ✓ **Check for Non-Compete Agreements:** If you previously worked as an employee, make sure you did not sign anything that prevents you from dealing with your former employer's clients who are now being counted on as revenue sources for your new business.
- ✓ **Continue Your Health Insurance:** It often takes time to find private health insurance at a price you are willing to pay. Unless your spouse can provide coverage through his or her employment, you should continue your existing coverage under your former employer's group plan by making a COBRA election within 60 days of the date your group coverage ceases. If the COBRA election is made within this period, coverage is extended retroactive to the date it would otherwise lapse (and you must pay premiums back to that date). Generally, coverage is continued for 18 months at a cost of 102% of the cost to your former employer. The cost may be higher than you expect, but making the COBRA election assures you of continuing coverage while you look for replacement insurance.
- ✓ **Make Other Insurance Arrangements:** Contact your property and casualty insurance company to find out what you need to do to insure any business assets and insure yourself against liabilities caused by your new business activities. Have a detailed discussion with your agent about issues such as whether you will have employees or independent contractors and what kinds of activities their jobs will entail. Are you insured against accidents that might occur in an office in your home? Many homeowner policies exclude coverage for business-related liabilities and provide only minimal coverage for business assets kept in your house. You should also make sure your liability limits are adequate in light of your new business activities. Some professional associations offer relatively cheap "umbrella liability" policies that provide excess coverage over and above your primary liability policy limits. You also probably need disability insurance to protect against loss of income if you become injured or disabled. Finally, you will probably want to replace any term life insurance coverage that is lost when you quit your job. The best deals are often through professional associations.
- ✓ **Arrange for Credit before You Quit:** Even though you may have excellent credit, the change in your employment status can make borrowing much more difficult – until you have a proven track record. If you have a foreseeable need to buy a new house or car or make other major purchases that will require significant borrowing, set it up before you quit your job. If you are considering refinancing your home, do it now. Even if you don't think you will need the money, it is also a good idea to consider taking out a home equity loan or home equity line of credit. This can provide some cushion if your business expenses turn out to be higher than expected or if revenues don't come in quite as fast as you expect. (If it turns out you really don't need the money, you can always pay back the loan.) For the same reasons, arrange for a line of credit or overdraft protection at your bank. Again, do these before you quit your job. Strongly consider any other measures you can take to increase your borrowing power (including making informal arrangements with relatives); just in case you get off to a slow start. You will have enough to worry about in the first few months - you don't need a cash crunch on top of everything else.

- ✓ **Conserve Cash:** Before you actually quit your job and for the first few months after you go into business for yourself, minimize your cash outlays so you can build up a margin for error. In the early months of a new business, cash flow is often less than expected because of time spent in startup activities that don't generate revenue and because at least some of the anticipated work fails to materialize. You may also find that you have underestimated your expenses. The way to deal with this is to (1) postpone spending money on things that are not strictly necessary (such as vacations) and (2) use your credit judiciously. Don't be afraid to put necessary expenditures on your credit cards in order to conserve cash. You can always pay off the balances as soon as cash flow permits – with interest, of course. Purchase office equipment or furnishings with credit before you quit your job.
- ✓ **Understand the Liability Issues:** Discuss state-law liability issues with a competent business attorney. Ask your tax advisor, (C&L Value Advisors, LLC), to participate in the conversion, because legal and tax issues are interrelated.
- ✓ **Choose Your Business Entity Wisely:** The question of what type of legal entity (Corporation, Limited Liability Company, etc.) is best for your new business also depends on both legal and tax considerations. Speak with C&L Value Advisors, LLC first and your trusted attorney second, to make the best choice-of-entity decision.
- ✓ **Get Startup Tax Planning Advice:** Often, what you do (or don't do) when you begin your new business can help or hurt your tax situation for an extended period. For this reason, you should seek up-front tax advice about the following issues:
  - Avoiding double taxation if your business will be incorporated.
  - Installing a retirement plan and other tax-favored fringe benefit programs for the owner(s).
  - Avoiding unnecessary employment or self-employment taxes.
  - Making critical federal income tax elections in the first year of business (such as elections to amortize startup costs, immediately deduct the cost of the new equipment, and use the cash method of accounting).
  - Implementing various other strategies to minimize taxes on both you and your business entity.

**IMPORTANT:** Don't assume you can wait until the end of the year (or even worse until tax return filing time) to handle all of your tax planning needs. By then, it may be too late to benefit from all the potentially available tax breaks and avoid all the tax pitfalls. The advice is especially important if your new practice will be run as a corporation because transactions between corporations and shareholders almost always have tax implications. These should always be assessed ahead of time with C&L Value Advisors, LLC rather than after the fact.

C&L Value Advisors, LLC  
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