Legal and Administrative Steps to Start a Business

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Agenda

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

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1. Registration

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Legal Entity and Tax Entity

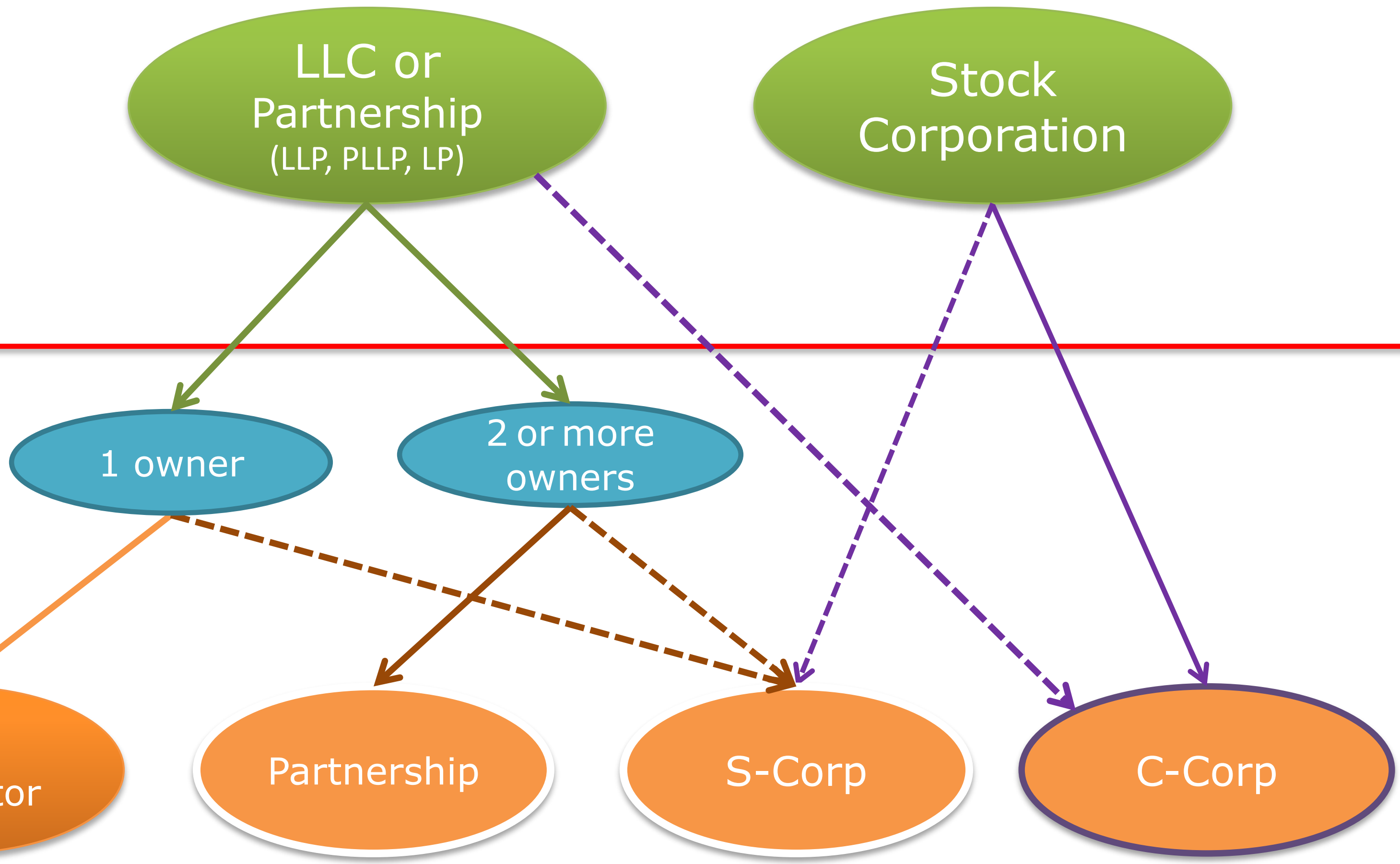
Legal Entity:
State of VA
State Corporation Commission (SCC)

[Create Online Account]

[Create Company]

Tax Entity:
IRS

[Online form]



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Legal and Tax Choices

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

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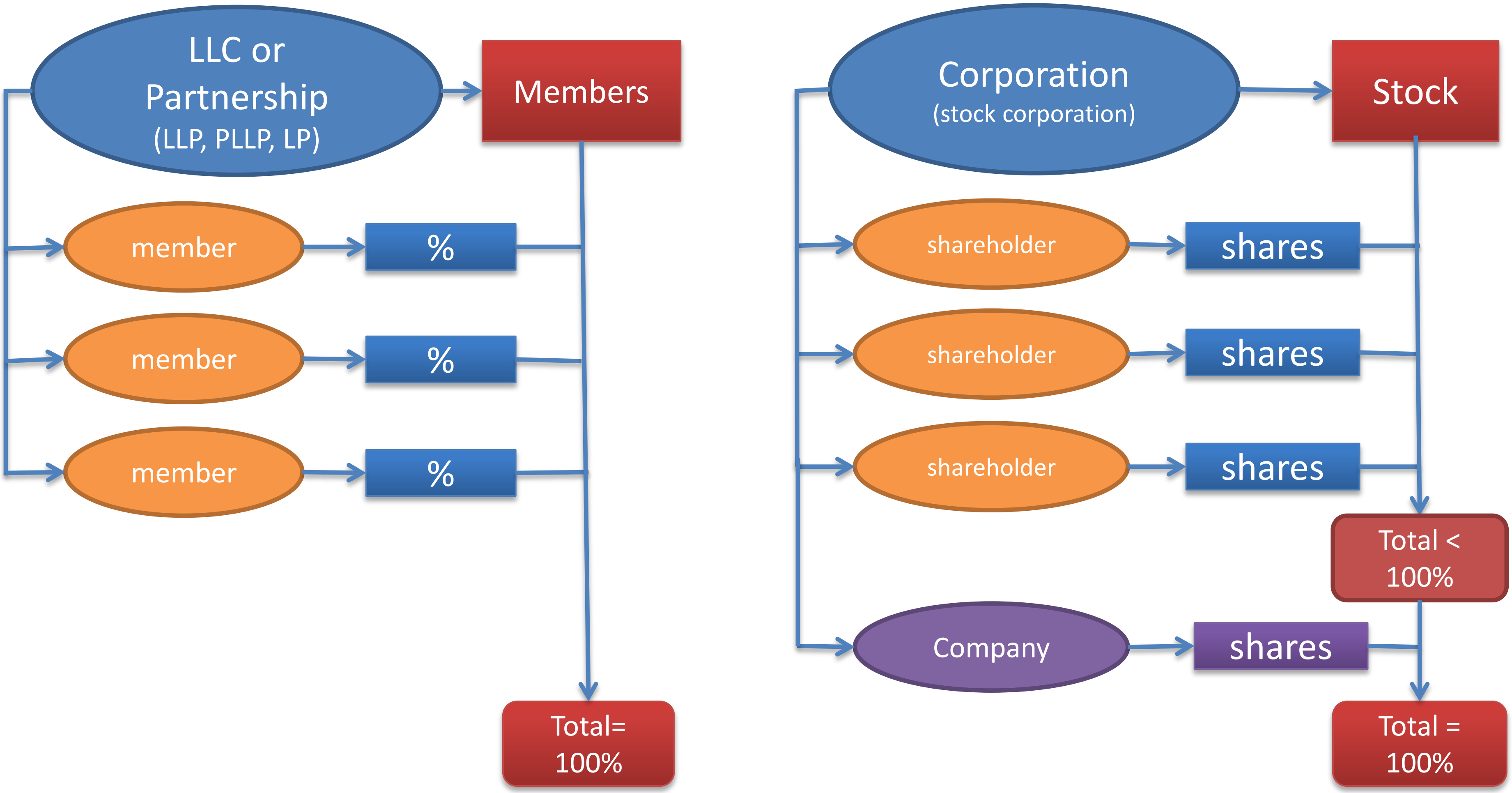
LLC/Partnership or Corporation ?



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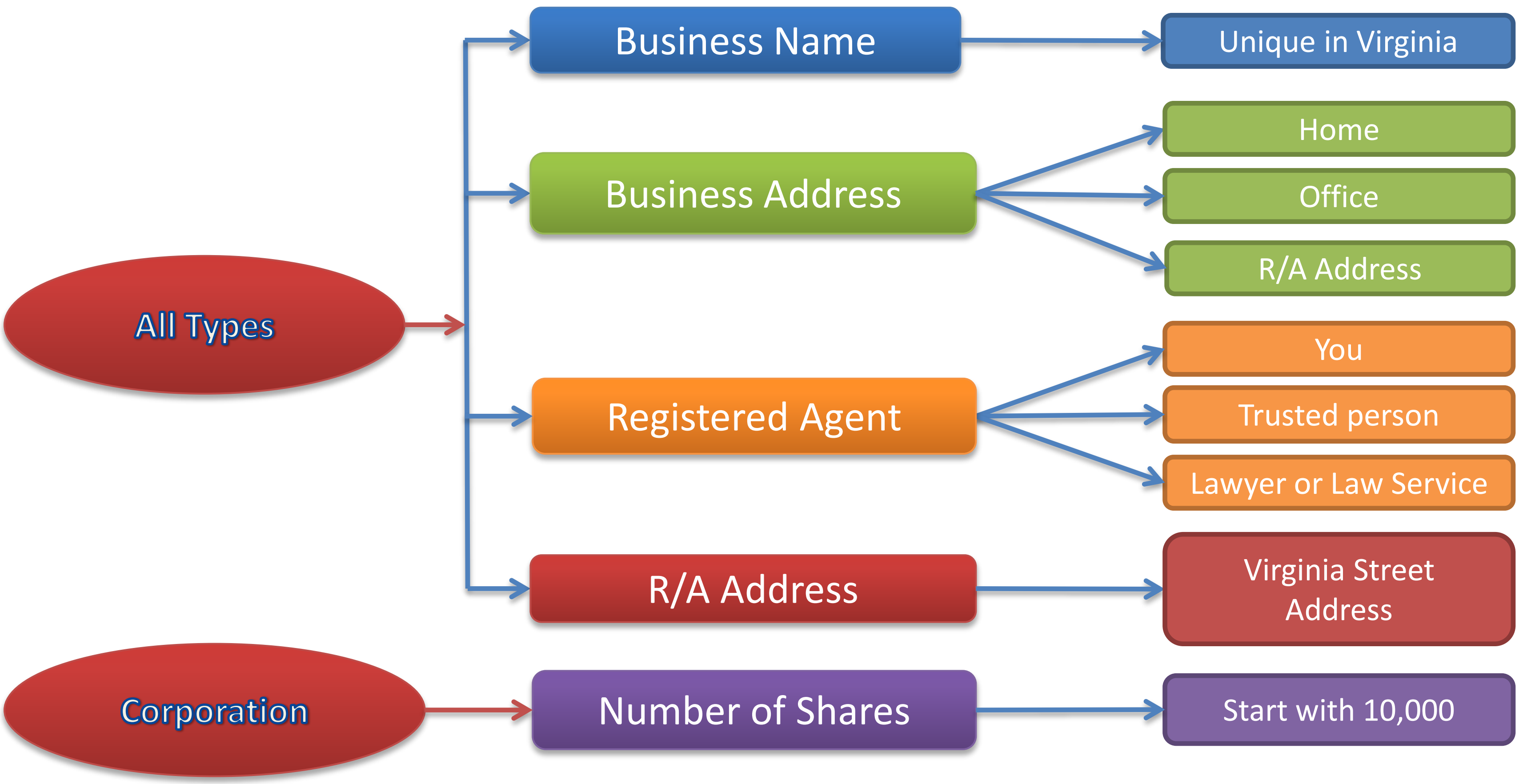
Virginia Registration Details



You can change anything & everything later

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Registered Agents

- LegalZoom
- NorthWest
- Virginia Registered Agent
- ZenBusiness
- More on Forbes

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Operating Agreement

- 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 Agement

Download a template and/or consult a legal professional

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IRS Tax ID

- 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
- Find your industry NAICS code
- Non-profits: read IRS publication 4220.

IRS Info at IRS Small Business Info and SBA Legal Discussion on S-Corp vs. LLC

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Virginia & Local Tax Registration

- 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

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Registration checklist

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

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2. Federal Taxes

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Federal Taxes

- 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

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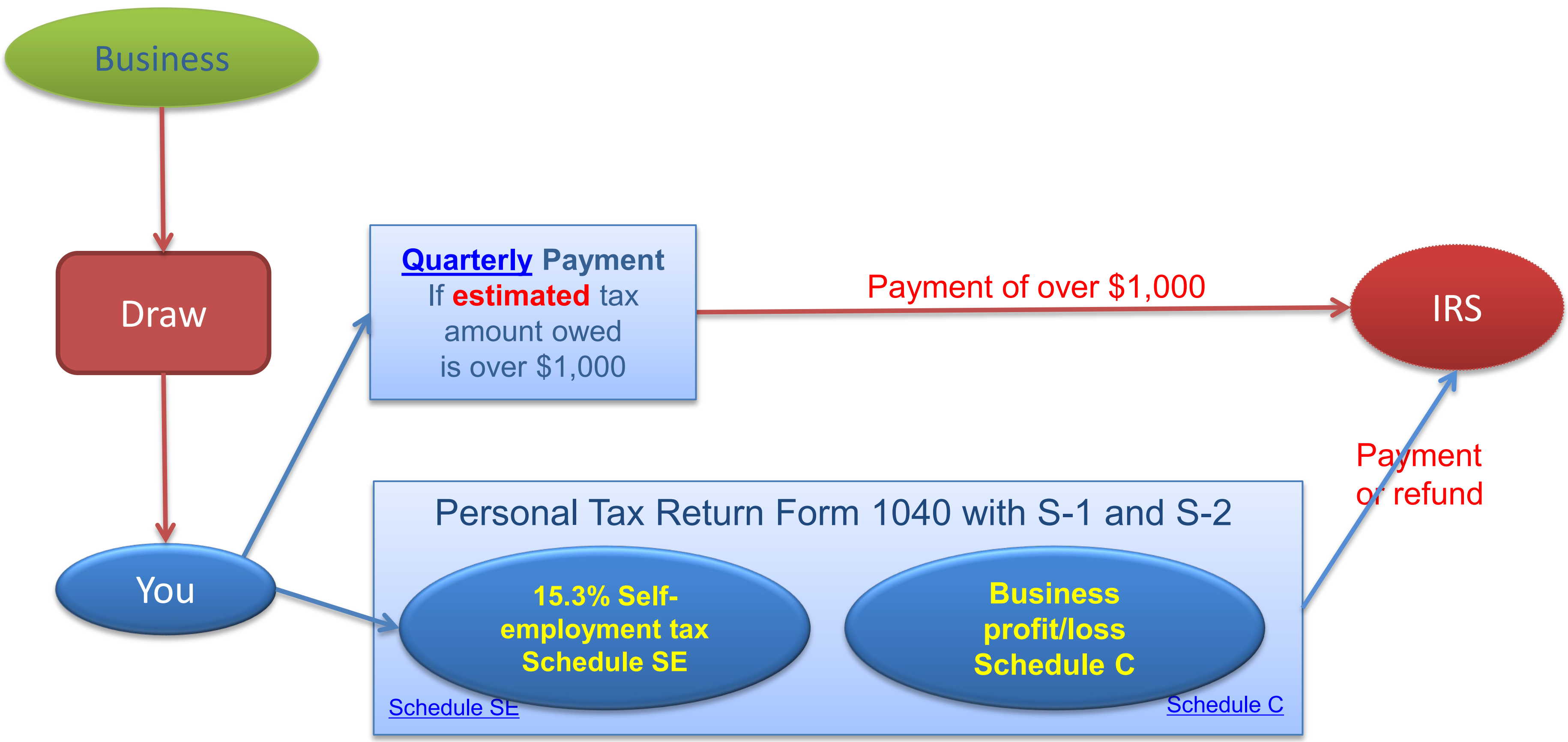
Sole Proprietor Tax Filing



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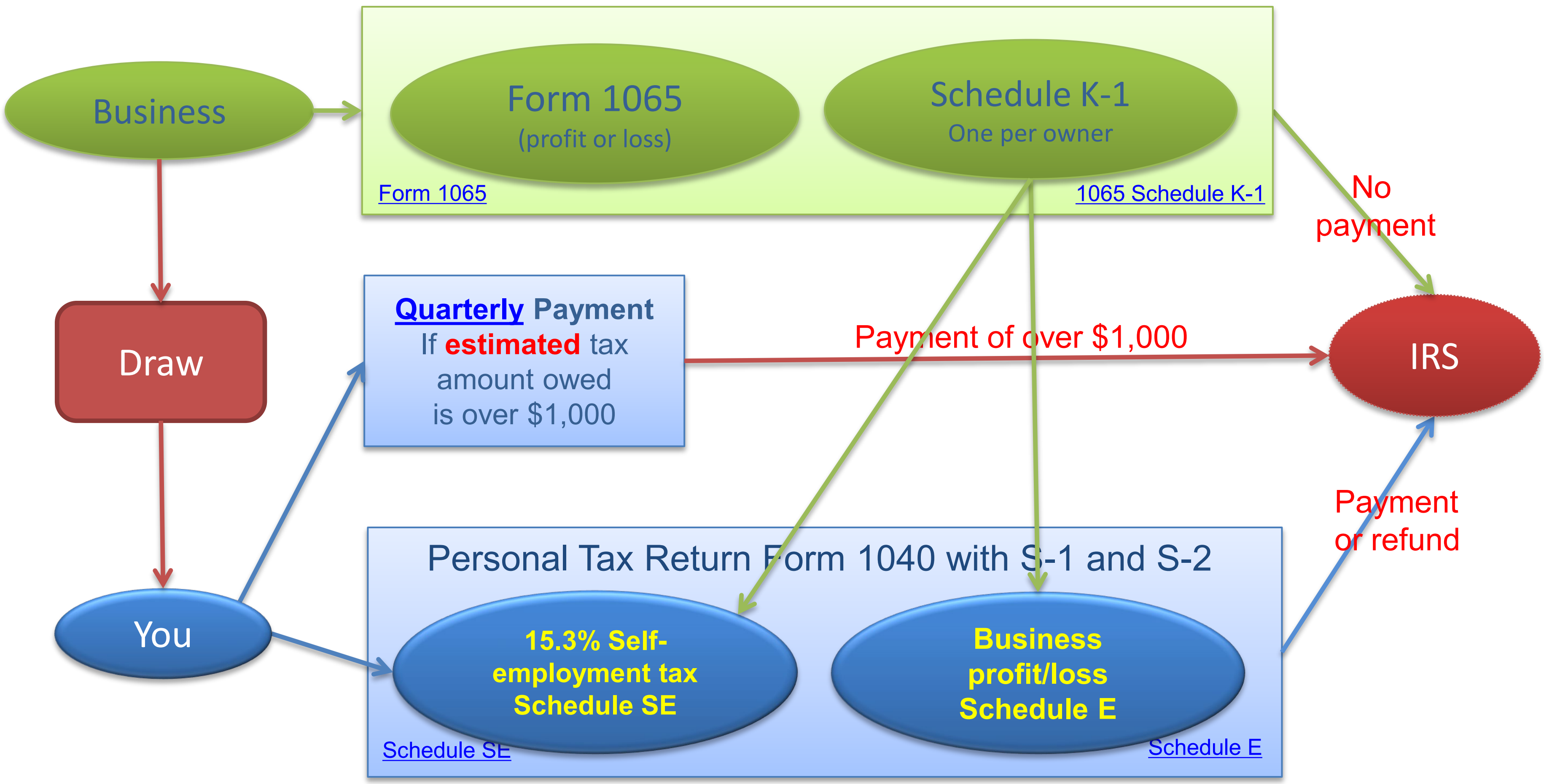
Partnership Tax Filing (Multi-owner LLC)



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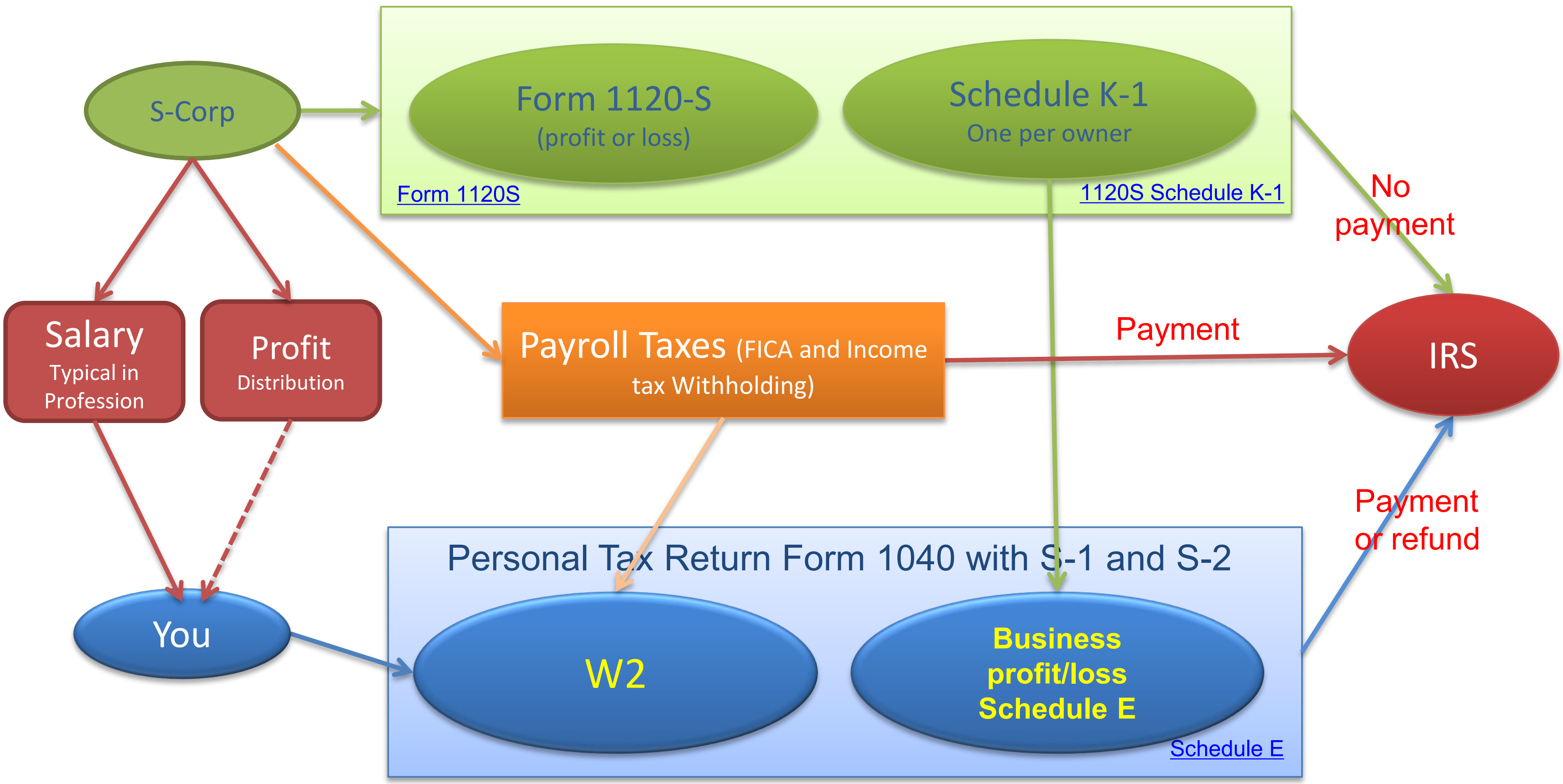
S-Corp Tax Filing



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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
Tax Savings			**-$55**		**$404**		**$2,240**
Payroll processing expense			$200		$200		$200
Accounting & tax preparation			$500		$500		$500
Total additional expenses			$700		$700		$700

Actual savings			**-$755**		**-$296**		**$1,540**

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Sole Proprietor Tax Filing

- 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 awed is over $1,000

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Partnership Tax Filing (Multi-owner LLC)

- 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 15th**
- 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

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S-Corp Tax Filing

- 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

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IRS Yearly Quarters

- 1st: January-February-March
- 2nd: April-May
- 3rd: June-July-August
- 4th: Sept-Oct-Nov-Dec
- Payment is due the 15th day after the end of the quarter
- IRS Calendar

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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 15th	March 15th

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3. Basic Management

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Employees or Contractors?

- 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

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Business Insurance

- 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

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Finance and Accounting

- 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

- 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!

- 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

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

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Thank you and Good Luck!

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Email help@masonsbdc.org

and ask for a session with

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