

A GUIDE TO STARTING A HOME-BASED BUSINESS

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A GUIDE TO STARTING A HOME-BASED BUSINESS

INTRODUCTION

It is estimated that the number of home-based businesses in this country has grown from 9 million in 1992 to 10-12 million in 1999 (Pratt, 2000, p. ES-1). In the year 2000, nearly 40 million people were running a business from their own homes (Weltman, 2000, p xix). While statistics are not currently available for Kewaunee County, Ron Yesney, University of Wisconsin Extension Community Development Education Coordinator for Kewaunee County, estimates that about 40% of the people who come into his office are looking to open a home-based business.

This project was prompted from my own experience as a resident looking to open a home-based business in my hometown area. Currently, a single reference guide that one can refer to, with the basics of starting a home-based business, along with a listing of the requirements and resources specific to this area, does not exist (this report has been modified and does not include the specifics for this area).

Purposes of the Study

The purposes of this study are to (1) discover resources available to my hometown residents looking to start-up a home-based business, and (2) consolidate the results of this research into a single resource to be made available to those who seek information about starting a home-based business. Many references to my hometown have been removed, however, the basic information for starting a home-based business remain the same.

How the Report is Organized

The first section of the report deals with general business start-up information, which will apply to most businesses. The second section examines the unique challenges and rewards of running a business from home.

Appendices include business structure and required tax forms, a tax calendar, copies of secondary research journal articles, and a glossary of business terms. This report has been modified from its original form in that information pertaining to my residential area has been removed.

RESULTS OF THE RESEARCH

General Business Start-up Information

You've got a great idea and you're ready to hang up the 9-to-5 routine. Starting a business can be an exciting, rewarding, and profitable adventure. For the right person, the many advantages of business ownership include:

- You are your own boss.
- You benefit from your hard work.
- You can put in as little or as much time into your business as you like.

The bottom line is you have freedom when you own your own business (Edwards, Edwards, Economy, 2000, pp. 12-13).

Before You Begin

Being a business owner is not for everyone. It takes hard work, a strong desire to succeed, talent and a little luck. It also takes research and planning. You can increase the chances of success by first taking the time to assess your business and personal goals.

Assess personal characteristics

Robert Spiegel (2000) believes that successful business people share certain qualities. He lists the common traits of successful entrepreneurs as:

- Persistence and patience.
- Resourcefulness
- Ability to motivate people
- Focus
- Vision of a better future
- Capacity for ongoing learning
- Willingness to change (p. 7).

You can take Spiegel's home-business aptitude test (pp. 8-9) or Economy, Edwards, & Edwards' quiz (2000, pp. 13-16) to see if you have what it takes to run your own business.

Decide on a business

Confident that you have what it takes to run your own business, it's time to decide what that business will be. The many opportunities include using your own great idea, buying an existing business, buying into a franchise, network marketing, or a Web-based business. (Weltman, 2000, p.17). You will have a

better chance of success if you choose a business that will allow you to combine doing what you are good at with what you love doing (Spiegel, 2000, p. 39).

Research the market

No matter how great your idea is you need people who will pay for what you are providing in order to succeed. Initial market research will answer some crucial questions for you before you dive into your business venture.

- Do people really want what you are selling?
- Does your product or service fit in with the climate of the community?
- Is there room for a business of your type?
- What will make consumers buy from you rather than the competition? (Kamaroff, 2001, p16).

Determine the legal structure of your business

There are many things to consider before you decide what legal form your business should take.

- What impact will it have on your business's image?
- What will the impact be on planned growth?
- What will the costs be to start-up and maintain your business?
- What are your tax goals?
- What will be the impact of government regulation?
- What are your financing needs?
- What amount of personal risk are you willing to take? (Edwards, Edwards, Economy, 2000, p. 183).

There are several forms a business can take. As a sole proprietor, you are the sole owner of your business and considered self-employed. This is the least expensive and easiest form of business to start. You are one and the same with your business and are responsible for all legal and financial obligations. If you go into business with two or more people, you may be forming a partnership. Partners are also self-employed and partnerships have many of the same legal consequences as a sole-proprietorship.

A limited partnership is a special kind of partnership that can protect the liability of each individual partner. In a limited partnership, or limited liability company, at least one owner is a general partner with unlimited personal liability. The other owners may be limited partners whose liability for partnership debt is limited to the amount of their contribution in the partnership. It is a good idea to make a formal partnership agreement that conforms to state law. The Wisconsin Department of Financial Institutions (DFI) offers a Quick Start LLC application right on its web site:

<https://www.wdfi.org/corporations/quickstart/llc/intropage.asp>.

Neither sole proprietors nor partners are covered by worker's compensation or unemployment tax and income is taxed directly to each owner.

Another form of business is the corporation. A corporation is owned by shareholders (or stockholders) and is governed by its by-laws, which are overseen by directors. The daily business activities of a corporation however, are carried out by officers. Costs involved with incorporating are higher as there are state filing fees and attorneys' fees just for organizing the corporation. There may or may not be tax advantages to incorporating, but one of the biggest advantages is that you are protected from being liable for claims against the business (Weltman, 2000, pp. 74-78).

Decide on a bookkeeping method and an accounting method

According to the IRS, everyone in business must keep records (IRS Publication 583, 2000). Doing so will help you do the following:

- Monitor the progress of your business.
- Prepare your financial statements.
- Identify source of receipts.
- Keep track of deductible expenses.
- Prepare your tax returns.
- Support items reported on tax returns.

With a few exceptions, the law does not require any special *kind* of records (IRS Publication 583, 2000). How much bookkeeping you need depends on the type of business you are running. If you sell on account you will need records of each credit customer. If you hire employees, you will need to keep payroll records. Inventory records are needed for sales businesses and so on. The type of bookkeeping method you choose is entirely up to you. There are computer programs that can take care of everything without mathematical errors, but many new companies choose to use hand-posted ledgers (Kamaroff, 2001, p. 42).

The method of accounting you choose is an entirely different matter. This is the way of reporting when income is earned and expenses are paid. (Weltman, 2000, p. 246). The two methods are the cash method and the accrual method.

Under the cash method, income is recorded when the cash is received, and expenses are recorded when paid. You can use the cash method if you don't buy on credit or extend credit to your customers, or have inventory (Kamaroff, 2001, pp. 44-45).

You must use the accrual method if your business: 1) has inventory and annual sales of over \$1 million dollars or, 2) is a corporation with annual sales of \$5 million dollars or more, regardless if there is inventory (Kamaroff, 2001, p. 45).

With the accrual method, income and expenses are reported when the work is done, rather than when payment is actually received (Weltman, 2000, p. 343).

Decide on a company name

Choosing a name for your business can be one of the more enjoyable things you will have to do. Karamoff (2000) warns however, that this should be done with some consideration:

1. Be sure your name is easy to pronounce and remember.
2. Take into consideration how the name might sound to customers.
3. Use your own name if you want to connect with customers personally.
4. Be careful of using cute names and misspelled words.
5. Try not to use a name that is similar to another business.
6. Be aware of how your name may be interpreted overseas if you intend on doing business there.
7. Choose a name that tells people what you do.
8. Stay away from using articles such as “The” and “An” at the beginning.
9. Consider using a word that starts with a letter near the beginning of the alphabet.
10. Choose a name that won’t limit you in the future (p. 36)

Be careful not to choose a name that has a federally registered trademark. You can do a trademark search free of charge at the U.S. Trademark Office’s Web site, <http://www.uspto.gov>. (p. 37).

Obtain the necessary licenses and permits

One of the least enjoyable tasks when starting a business may be making your way through the maze of what licenses and permits you will need. Requirements vary from city to city and state to state and business to business. The best place to start is with your local government. Then contact the state and federal agencies appropriate for your type of business.

Some of the common licenses and permits include:

- Business license, which is a permit to operate a business locally
- Home-occupation permit if your community restricts home-based businesses
- Miscellaneous local permits that may be specific to your community
- Police permit, which may be required if you have an alarm that police respond to
- Food permit, which is required for any business that makes or sells food

- Seller's permit which is required for any business that sells tangible goods and services
- Building permits, fire certificates, and zoning permits

Find out about tax requirements

As the saying by Benjamin Franklin implies, there are only two things in life we can be certain of. One of them is taxes. When you run your own business, you can look forward to paying some of the following taxes:

- Income tax
- Self-employment tax
- Estimated tax
- Social security tax
- Unemployment tax
- Sales tax
- Excise tax
- Use tax
- Business tax (Economy, Edwards, Edwards, 2000, pp. 196-197)

The legal structure of your business will determine what taxes your business will pay and which forms to fill out. For example, if you are a sole proprietor, you and your business are one in the same and are taxed as such. You are also self-employed and responsible for self-employment tax, which is the equivalent of FICA (Weltman, 2001, pp. 258 - 259). Appendix A shows what tax forms are needed according to the legal structure of the business.

The accounting period you choose will determine when you pay some of your taxes. The IRS calls this the "taxable year" and is either a calendar year, from January to December, or a fiscal year, any twelve-month period ending in the last day of the month other than December. A tax calendar, which lists the due dates for federal and state taxes can be found in Appendix B.

Taxes are a part of day-to-day business operations. Even if you use an accountant to prepare your taxes, it is in the best interest of you and your business if you familiarize yourself with the basics of tax requirements.

Establish a business bank account

While the IRS does not require a bank account be opened for your business transactions, some states do not allow checks be cashed that are made out to a business, rather they require the checks be deposited into a business account (Edwards, Edwards, & Economy, 2000, pp. 118-119). Some banks may require

a DBA (fictitious name) before opening a business account (Kamoroff, 2000, p. 42). Establish a relationship early on with a bank. You may need them for other services such as, opening a line of credit (Weltman, 2000, p.212). According to Sheri Ackerman, Personal Banker, F&M Bank in Algoma, when a business owner comes in, the first thing they will do is an assessment of the financial needs of the business. What is the expected sales volume? How are payments accepted? Will there be a high volume of deposits? Withdrawals? Will the business accept credit card payments? After assessing the anticipated needs, Ackerman says the bank will fit the business with the proper services. The future needs of the business can also be addressed as the business begins to grow.

Create a business plan even if you do not need to obtain financing

A business plan is more than a loan proposal. It can serve as a roadmap for the future of your business. Writing down what your business is all about and where you want it to go in the future is a business plan. A business plan can help you:

- Organize your ideas
- Learn the strengths and weaknesses of your business idea
- Obtain financing

The U.S. Small Business Administration offers a free tutorial and guidelines for writing a business plan on their Web site:

http://www.sbaonline.sba.gov/starting_business/planning/basic.html .

Obtain Financing

One of the primary concerns many aspiring entrepreneurs have is where to get the money needed to start a business. Not only that, but what will you live on in the early days when business may not be so profitable. What type of business you are in will determine how much money you will need to get started. Part of your business plan will be a financial statement which will help determine your assets, liabilities, and how much capital you will need to get your business up and running. The four basic categories for finding money for your business are: 1) dig in your own pocket (self-financing), 2) borrow (debt financing), 3) seek investors, or 4) get a grant (Weltman, 2000 p. 117).

The sources for any of these categories vary widely. Here are some of the sources for the different categories.

Self-financing:

- Savings account
- Credit Cards
- Retirement funds

- Cash settlements
- Reduce tax withholdings

Debt-financing:

- Credit Union loan
- Life insurance policy loan
- Home equity line of credit
- Bank Loan
- Loans from friends and family
- Loans from suppliers or colleagues
- SBA guaranteed loan

Investors:

- Equity financing
- Venture capital

Grants:

- Government grants
- Disability grants
- Foundation grants (Kamoroff, 2000, pp. 19 – 24, Economy, Edwards, Edwards, 2000, pp. 109 – 111, Weltman, 2000, pp. 125 - 128)

It is best to borrow as little as possible. If you do borrow from friends or relatives, put the loan agreement in writing. Finally, start with the prospects that may seem the least likely to come through. If there turns out to be problems with your presentation, you can find out before ruining your chances with the better prospects (Kamoroff, 2000, p. 24).

Obtain Insurance

The list of insurance available to business owners is a long one. Some are required by law, others are important to have, and still others may be required by your landlord or bank. For a small business, having the right kind of insurance can mean the difference between surviving after a mishap or being forced out of business. Check the list in Table 1. to help determine your needs.

Types of Business	Insurance
Basic fire insurance	Vandalism and malicious mischief
Extended coverage	Patent owners insurance
Liability insurance	Key Person Life Insurance
Fire legal liability	Boiler and Machinery coverage
Property damage liability	Credit insurance
Products liability	Damaged or destroyed records
Malpractice	Specialized insurance
Bonds	Fiduciary insurance
Theft coverage	Copyright insurance
Business interruption	Internet insurance
Workers compensation insurance	Export insurance
Vehicle insurance	Employment practices liability coverage
Environmental Impairment and pollution liability	Bad weather insurance
Unemployment insurance	Health insurance
Self insurance	Disability insurance

Table 1. Types of Business Insurance

First determine what insurance is required by state and local law. Your landlord and your bank may also require you to carry certain types of insurance. Next to the mandatory insurance requirements, liability insurance may be the most important. Protecting yourself against an injured customer or delivery person may mean the difference between staying open or being forced to close down.

How much additional insurance you have is up to you. Shop around to find the best deal and read the policy carefully before you pay for it.

Explore Retirement Plans

When you leave behind the 9-to-5 grind, you MAY also be leaving behind some of the benefits of working for someone else. One of those benefits may be a pension plan or retirement fund. Fortunately, there are options for the self-employed. The types of retirement plans available to the self-employed include:

- SEPs (Simplified employee pensions)
- Keogh Plans
- Roth IRAs
- Deductible IRAs
- SIMPLE plans (Savings Incentive Match Plan)

These retirement plans offer tax-deductible contributions (with the exception of the Roth IRA), as well as tax-deferred earnings.

Decide on a location

If you rely on customers coming to your door, the location of your business could make or break you. This decision should be taken very seriously.

Take the following into consideration when deciding on a location for your business:

- Specific needs of your business-space, special installations, etc.
- Zoning requirements (check with your local planning office)
- Appearance of the area; safety
- Customer base of the area; population density and type
- Traffic patterns, accessibility, and parking
- Nature of the competition
- Cost
- Lease terms
- Assistance-merchants associations, landlord, etc. (Litman, 2000)

Find out why the building is vacant and learn as much as you can about the area by talking to other merchants in the neighborhood. Be sure the building is the right size and inspect for needed repairs. Find out the cost of utilities and check with the local zoning department to be sure the building is zoned for your use. Have the building inspected by the local building inspector and fire inspector, and if you are serving food, the health inspector. Make sure the building complies with the Americans with Disabilities Act (Kamoroff, 2000, pp. 16 – 18).

If a highly visible location won't be a significant factor in the success of the business, you may consider running your business from your home. There are many types of businesses that are perfectly suited to be run from home, but running a business from your home brings on a new set of challenges.

Operating a Home-Based Business

Whether your home-based business will serve as a launch pad for a more aggressive enterprise or the final stop on your quest for business ownership, operating a business in your home brings on many more challenges. Even so, there are many rewards to running a business from home. Take a close look at what kinds of business can be run from home, the pros and cons of running your business from home, and some of the special considerations and obstacles you may have to overcome.

What kind of businesses can be run from home

If you haven't quite decided what kind of business you would like to run, there are many opportunities to choose from.

According to Paul and Sarah Economy (Economy, Edwards, & Edwards, 2000 p. 24), the top ten home-based businesses are:

- Bodywork/Massage Therapy
- Coaching (career, dating, etc.)
- Computer Consulting
- Computer Repair
- Elder Services
- Financial Advising
- Pet Sitting
- Technical Writing
- Tutoring
- Web mastering

There are many more business opportunities where location isn't going to be a factor in attracting customers. When deciding on what you would like to do, take into consideration what you like to do! Or perhaps you can turn your current job into a home-based business. Other fields that can translate into a home-based business include:

- Communications – freelance writer, publicist, story editor
- Office Support – word processor, medical transcriptionist, printer
- Art – graphic designer, photographer
- Education – day care, college admissions consultant, talented and gifted coordinator, textbook writer
- Law – real estate, tax, contracts, non-trial work, mediator
- Health – physician, dentist, childbirth educator, home healthcare agency
- Financial Services – bookkeeper, accountant, auditor, insurance agent
- Computers – software creator, programmer, data processing
- Human Resources – employment counselor, headhunter
- Management Consultant – market researcher, management trainer, seminar organizer
- Sales/Manufacturing – mail-order sales, manufacturer's representative
- Therapy – speech, physical, occupational, music, social worker
- Food/Nutrition – caterer, baker, dietician, cooking teacher, cookbook author
- Entertainment – talent scout, party planner
- Home Improvement – interior decorator, architect, landscape designer, upholsterer, real estate agent
- Personal Services – hair stylist, personal trainer, image consultant, babysitting referral service, tag sale coordinator

- Crafts/Sewing – knitter, costume maker, furniture maker, personalized gifts (Cobe, P., & Parlapiano, E. 1996, pp. 27 – 30).

There are also franchise opportunities, which are agreements in which one business grants another the right to distribute its products or services (Economy, Edwards, & Edwards, 2000 p. 30). Home-based franchises come in all shapes and sizes and include Snap-on Tools, Stork News of America Inc., Tutor Time Learning Systems Inc., and CruiseOne Inc., just to name a few (Entrepreneur.com, 2001).

Network marketing and direct-selling opportunities are yet another category of home-based business opportunities. These include such companies as Discovery Toys and Tupperware. These opportunities come in two flavors; one where you buy products directly from the parent company and sell them to others, or two, you market these products for the parent company and earn compensation based on the sales you directed toward the company

You should take into consideration which business opportunity will bring in the kind of income you need and which types of businesses will survive in the long run (Spiegel, 2000, p. 45). Other important factors in choosing a home-based business are, 1) whether or not you will depend solely on your business income to survive, and 2) whether the business has a chance of making it in the long run.

Advantages to running a business from home

Many of the advantages of running a business from home are the same as owning any kind of business, but there are a few more that are unique to the home-based business owner.

- *You have the option of doing work when and where you want.* This could be especially important in the early stages or if you are still holding a full-time job outside of the home.
- *You will have no more commute.* This advantage alone offers the rewards of less wear and tear on your vehicle, less money spent on fuel, and less time needed to get ready for work in the morning,
- *You will have lower overhead.* Because you won't have to go out and rent office space as well as new furnishings, your start-up costs are significantly reduced.
- *You may have extra tax deductions.* A percentage of your mortgage or rent and utilities may be partly deductible, saving you money and improving cash flow.

- *You can spend less money on work clothes.* Money on clothing can be saved if you no longer have a job outside the home that requires a certain dress code.
- *You can get away from office distractions and gossip.* No more water cooler gossip, office red tape and distractions that can prevent you from getting your work done.
- *You can get a self-esteem boost from running your own business.* What better feeling to have than to succeed at being a business owner.
- *You can spend more time with your family.* Because you are the boss, you can decide when to take an afternoon off to go fishing or attend your child's school play.
- *You can stay home and take care of your kids.* Often the primary reason a parent decides to start a home-based business is to be able to spend major portions of the day with the children. You will also save money that normally would go to child-care.

While the advantages to running a home-based business are very appealing, these same reasons for working at home can turn into disadvantages

Disadvantages of running a home-based business.

While working at home may be one of your dreams, having your business space and your home space so close can weigh against you in many ways. Consider some of the disadvantages of owning a home-based business:

- *You are working more hours than you thought you would.* Because your work is always handy, this may tempt you to work even longer hours than your first thought. This will inevitably reduce the amount of time you thought you were going to have to spend with your family. According to April Pennington (2001), without the structure of an outside workplace, actual working hours may tend to be scattered and not as productive. Setting up a schedule and sticking to a routine can go far to ensure that home-based working hours are productive.
- *You feel isolated* Getting away from the bureaucracy that can plague corporate life, as well as removing yourself from the office gossip, can sound most appealing. At first you may be looking forward to the peace and solitude that can come from working at home. In reality, isolation is a very serious problem that home-based workers face. After awhile, being alone in your home office can affect creativity, energy level, and problem solving abilities. If you look forward to your trips to the post office too

- much, adding social and physical activities to your workday can add the necessary balance and help reduce stress (Pennington, 2001).
- *No one will take your business seriously.* Complying with local requirements, planning the proper legal structure, obtaining the necessary insurance, providing information above and beyond what is required to secure capital, and recognizing when it is time to move a business away from home are just a few things that home-based businesses can do to battle the stereotype that they are not “real” businesses. Being prepared and honest about the nature of a home-based business can go along way toward establishing credibility in the marketplace (Andresky Fraser, 1999).
- *You can stay home and take care of your kids.* While working away from home with children is hard enough, trying to work with your kids in your “office” everyday is a challenge in itself. Working around the kids’ schedules can reduce productivity during the day, so you may find yourself putting in your billable hours very early in the morning or late at night. There has been debate over home-based working parents using childcare if it defeats the purpose of them working at home so they can take care of their kids in the first place. Establishing visible boundaries between work life and home life, and learning how to multitask can help ease any stress on the family (Pennington, 2001).

As you can see, the obstacles you may encounter when running a home-based business can be overcome.

Hiring Employees

If you find yourself getting buried in your work with no end in sight, paperwork is stacked so high on your desk you’re not even sure there is a desk under there, or even though you work at home but never see your family, it may be time to consider hiring an employee. Having someone work for you will require more paperwork in addition to dealing payroll, taxes, benefits and insurance (Allen, 1998).

Before you decide to hire, find out if local regulations permit you to have employees in your home. In some areas, a special zoning permit is required. You may also need additional insurance; make sure you've got liability coverage in the event an employee is injured on your property. The U.S. Department of Labor’s Federal Standards Act, and some state “homework laws” restrict some businesses from hiring employees and require the employer to be certified by the Department of Labor (Kamaroff, 2001, p. 147).

You will also want to take into consideration how you and your family will feel about “outsiders” coming in and out of the house. A little privacy will be sacrificed as well, but open communications between all parties can help

alleviate some of the problems that may arise from taking on employees in the home.

Insurance

One of the biggest mistakes a business owner can make is to assume that their homeowner's insurance policy will cover any losses that may occur to their business if it is being run from their home. However, home-based business owners may find it difficult to obtain the needed insurance. Insurers have been concerned with home-based business owners taking necessary safety precautions and may hesitate to endorse a policy unless a business has been around for at least three years (Andresky Fraser, 1999). This obstacle can be overcome by first consulting the insurance company which holds the policy for the home itself.

According to American Family Insurance agent Tom Kroll, with an endorsement to the homeowner's policy, you could obtain liability insurance for personal injury. With few exceptions, however, it would be necessary to obtain a commercial policy to cover losses that could occur when running a business from the home such as, professional liability and loss of equipment.

What's Next?

Once you have decided that you really want to open a home-based business, evaluated all of your options, decided on a legal structure, and obtained insurance, what do you do next?

Zoning and Tax Assessment

Visit your City or Town Hall and review the zoning code for Home Occupations.

After you have zoning approval and have set up your business, you may need to have a tax assessment of your business equipment performed. Requirements in each area may be very different.

Licenses and Permits

Obtain the necessary licenses and permits from your city, town, county, and state. It is highly recommended that you register your business name to avoid any legal complications. For example, say your business is Sue's Embroidery and someone else somewhere in the county or state is also running a business with the same name. You could prevent liability problems if the other company performs bad service or upsets their customers in any way, by registering your name with the county.

You also may need proof that your business exists for things such as banking. For example, proof of the legal structure of a business may be necessary when opening a business checking account. If you are running a sole proprietorship, for example, you may need to present a 'Doing Business As' (d/b/a) Certificate or Registration of Firm Names. You can check with your County Register of Deeds.

Other registration and permit requirements will vary according to the nature of your business. Contact your City Hall if you have any questions about additional permits the city may require for your business. Your occupation itself may require you to obtain permits or licenses to conduct your trade as a home-based business. You can contact your State Department of Commerce Permit Information to find out if there are more specific licenses and permits required for your home-based business.

State Sales and Use Tax

Contact your State Department of Revenue or Taxation and Finance Department for the required tax and/or registration forms. This will help you obtain a Resellers Permit which will allow you to collect (and pay) sales and use tax for sales made within your state as well as make purchases for your business tax free, as long as the purchases are made with the intent to resell the items to your customers.

Federal

A business will not need a Federal I.D. (tax) number if it has no employees and is organized as a sole proprietorship. The proprietor's Social Security number is used to identify the business. If the business changes to a partnership or corporation, or if it hires an employee, then a federal tax number will be required. For more information contact the IRS at call 1-800-829-1040.

If you are a sole proprietor, you will be required to pay FICA taxes to the Social Security Administration.

Home-Based Businesses Resources

Federal

Internal Revenue Service <http://www.irs.gov>

Internal Revenue Service Small Business/Self-Employed Forms and Publications http://www.irs.gov/smallbiz/sbse_forms_pubs.htm

Occupational Safety and Hazard Administration <http://www.osha.gov/>

Social Security Administration <http://www.ssa.org>

U.S. Department of Labor U.S. <http://www.dol.gov/>

U.S. Trademark Office <http://www.uspto.gov>

General Small and Home-based Business Resources

Miscellaneous Resources

Retirement Plans for the Self-Employed
http://www.toolkit.cch.com/text/p08_4800.asp

SBA-Starting Your Business
http://www.sba.gov/starting_business/startup/areyouready.html

Starting and Managing a Business From Your Home
<http://www.howtoadvice.com/StartBusiness/>

Business Organizations

American Home-based Business Association -
<http://www.homebusiness.com/FLAX/>
4505 South Wasatch Blvd. #140
Salt Lake City, UT 84124
Phone: 1-800-664-2422 Fax: 1-801-273-2399

American Small Businesses Association
<http://www.asbaonline.org/>
8773 IL Rte. 75E.
Rock City, IL 61070
Phone: 1-800-942-2722

National Association For the Self-Employed <http://www.nase.org/>
P.O. Box 612067
DFW Airport
Dallas, TX 75261-2067
Phone: 1-800-232-NASE

Small Office/Home Office (SOHO) Online <http://www.soho.org/>

Books and Journals

Home-based Business for Dummies by Peter Economy, Paul Edwards and Sarah Edwards (IDG Books Worldwide, 2000).

Small time operator: How to start your own business, keep your books, pay your taxes, and stay out of trouble by Bernhard Kamaroff (Bell Springs Publishers, 2001).

Home Business Magazine <http://www.homebusinessmag.com/>

Home Office Magazine <http://www.homeofficemag.com>

The Complete Idiot's Guide to Starting a Home-based Business by Barbara Weltman (Alpha Reference, 2000).

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APPENDIX A

BUSINESS TYPE AND REQUIRED TAX FORMS

Type of Business and Taxes Required	Forms to File
Sole Proprietor	
Income tax	Form 1040 and Schedule C or C-EZ
Self-employment tax	Form 1040 and Schedule SE
Estimated tax	Form 1040-ES
Excise tax	
Employment taxes:	Form 941 (943 for farm employees)
Social security and Medicare taxes and income tax withholding	
Federal unemployment tax (FUTA)	Form 940 or 940-EZ
Depositing employment taxes	Form 8109
Partnership	
Annual return of income	Form 1065
Employment taxes	Same as sole proprietor
Excise tax	
Partner in a partnership (individual)	
Income tax	Form 1040 and Schedule E
Self-employment tax	Form 1040 and Schedule SE
Estimated tax	Form 1040-ES
Corporation or S corporation	
Income tax	Form 1120 or 1120-A (corporation) Form 1120S (S corporation)
Estimated tax	Form 1120-W (corporation only) and Form 8109
Employment taxes	Same as sole proprietor
Excise tax	
S corporation shareholder	
Income tax	Form 1040 and Schedule E
Estimated tax	Form 1040-ES

APPENDIX B

TAX CALENDAR FOR BUSINESSES

JANUARY 1-MARCH 16

Corporations that meet certain requirements may elect, during this period, to be treated as S corporations during current and future years. Use Form 2553.

JANUARY 15

Individuals must either pay the balance due on prior year's estimated income tax or file an income tax return (Form 1040) on or before January 31 and pay the full amount of the tax due. See January 31.

Farmers and fishermen may elect to file declaration of estimated income tax (Form 1040-ES) for prior year and pay estimated tax in full, and file income tax return (Form 1040) by April 15 if declaration of estimated tax is not filed. See February 28.

JANUARY 31

Individuals should file an income tax return for prior year and pay the tax due, if the balance on their prior year's estimated tax was not paid by January 15. Use Form 1040. Farmers and fishermen, see February 28

Employers last day for giving every employee Form W-2 showing income and social security information. Also see February 28.

Employers deposit federal unemployment tax (FUTA) at an authorized bank if the tax is more than \$100. If the amount is \$100 or less, you are not required to deposit it, but you must add it to the taxes for the next quarter. Then, in the next quarter, if the total undeposited tax is more than \$100, deposit it by the last day of the month following the quarter. Use Form 8109.

Employers file Form 941 for income tax withheld and social security and Medicare taxes for the fourth quarter of the prior year and pay any taxes due. If timely deposits were made, see February 10.

Businesses liable for excise taxes must file quarterly excise tax return. Use Form 720.

Employers subject to federal unemployment tax file annual return for the prior year. Use Form 940. If timely deposits were made in full payment of the tax, see February 10.

All businesses: most state sales tax returns for the 4th quarter of last year are due.

Corporations that paid \$10 or more in dividends or interest must prepare Form 1099 & give one copy to each recipient. See also February 28.

All businesses that paid \$600 or more to an individual in commissions, fees or other compensation including payments to subcontractors must prepare Form 1099 & give one copy to each recipient. See also February 28.

All businesses that sold \$5,000 or more of goods to independent sales agents must prepare Form 1099 and give one copy to each agent. See also February 28.

All businesses that paid \$600 or more in interest must prepare form 1099-1 NT & give one copy to each recipient. See also February 28.

All businesses that paid \$10 or more in royalties must prepare Form 1099-M ISC & give one copy to each recipient. See also February 28.

Operators of fishing boats give each self-employed crew member a statement showing member's share for the year using Form 1099-MISC. See also February 28.

FEBRUARY 10

Employers who made timely deposits in full payment of all income taxes withheld and social security and Medicare taxes due for the 4th quarter of the prior year file 4th quarter return. Use Form 941.

Employers subject to federal unemployment tax who made timely deposits in full payment of the tax file annual return for the prior year. Use Form 940.

FEBRUARY 28

All businesses that prepared Form 1099 (See Jan. 31) file the 1099's with transmittal Form 1096 with IRS. If filed by computer, due date extended to March 31.

Employers must file Form W-3, Transmittal of Income and Tax Statements, with the Social Security Administration if you have issued Form W-2 (See Jan. 31). Copy A of each W-2 must accompany Form W-3.

Employers whose employees receive tips must report those tips on Form 8027.

Farmers and fishermen who did not file declaration of estimated tax on January 15 should file final income tax return (Form 1040) for prior year.

MARCH 15

Corporations must file federal income tax return, Form 1120, or application for extension, Form 7004, and pay to a depository the balance of tax still due.

S Corporations file federal income tax Form 1120S.

Corporations must file state income tax returns for the following states: Ala., Alaska, Calif., D.C., Ill., Maine, Mass., Md., Minn., Miss., Nebr., N.H., N. Mex., N.Y., N.C., Okla., R.I., S.C., Vt., W. Va., Wis.

MARCH 31

All businesses: Electronic filing of Form 1099.

Corporations must file state income tax returns for the following states: Conn., Del., Fla., Ohio, Tenn.

APRIL 15

Individuals must file a federal income tax return for the prior calendar year. The tax due must be paid in full with this return. Schedule C or C-EZ must be filed (Schedule F for farmers), and in addition, Schedule S must be completed. If you desire an automatic 4-month extension, file Form 4868 accompanied by payment of your estimated unpaid income tax liability.

Individuals file a declaration of estimated income tax (including self-employment tax) for the current year and pay at least 25 percent of such tax. Use Form 1040-ES.

Partnerships and LLCs must file a return for the prior calendar year. Use Form 1065 (no tax due). Corporations deposit first installment of this year's estimated income tax. Individuals must file a state income tax return for all states collecting income tax except Ark., Del., Hawaii, Va., La., and Iowa.

Corporations must file state income tax returns for the following states: Ariz., Colo., Ga., Idaho, Ind., Kans., Ky., Mo., N.J., N.D., Ore., Pa., Utah, Va., La.

APRIL 20

Individuals in Hawaii file state income tax return.

Corporations in Hawaii file state income tax returns.

APRIL 30

Individuals living in Del., Va. or Iowa must file a state income tax return.

Corporations in Mich. & Iowa file state income tax returns.

All businesses: most states sales tax returns for the first quarter are due.

Employers file Form 941 for income tax withheld and social security & Medicare taxes for the 1st quarter, pay taxes due. If timely deposits were made, see May 10.

Employers deposit federal unemployment tax (FUTA) at an authorized bank if the tax is more than \$100. If the amount is \$100 or less, you are not required to deposit it, but you must add it to the taxes for the next quarter. Then, in the next quarter, if the total undeposited tax is more than \$100, deposit it by the last day of the month following the quarter. Use Form 8109.

Businesses liable for excise taxes must file quarterly excise tax return. Use Form 720.

MAY 10

Employers who made timely deposits in full payment of income tax withheld, social security & Medicare taxes for the 1st quarter, file 1st quarter return. Use Form 941.

MAY 15

Individuals in Ark. & La file state income tax returns.

Corporations in Ark. & Mont. file state income tax returns.

JUNE 15

Individuals must pay 2nd installment of estimated income tax.

Corporations deposit second installment of estimated income tax.

JULY 31

Employers file Form 941 for income tax withheld and social security and Medicare taxes for the 2nd quarter and pay any taxes due. If timely deposits were made, see August 10.

Businesses liable for excise taxes must file quarterly excise tax return. Use Form 720.

Employers deposit federal unemployment tax (FUTA) at an authorized bank if the tax is more than \$100. If the amount is \$100 or less, you are not required to deposit it, but you must add it to the taxes for the next quarter. Then, in the next quarter, if the total undeposited tax is more than \$100, deposit it by the last day of the month following the quarter. Use Form 8109.

All businesses: most state sales tax returns for the 2nd quarter are due.

Employers with an employee benefit, pension, profit sharing, or stock bonus plan, file Form 5500 for the previous calendar year.

AUGUST 10

Employers who made timely deposits in full payment of all income tax withheld and social security and Medicare taxes due for the 2nd quarter, file 2nd quarter return. Use Form 941.

AUGUST 15

Individuals who received an automatic 4-month extension for filing last year's federal income tax return must now file the return. Form 1040.

AUGUST 31

Heavy-duty truck owners and operators must pay the federal use tax on highway motor vehicles used on the public highways. Use Form 2290.

SEPTEMBER 15

Individuals must pay 3rd installment of estimated income tax. Use Form 1040-ES.

Corporations deposit 3rd installment of estimated income tax.

Corporations that received an automatic 6-month extension for filing last year's federal income tax return must now file the return, on Form 1120, 1120-A or 1120-S.

OCTOBER 31

Employers file Form 941 for income tax withheld and social security and Medicare taxes for the 3rd quarter and pay any taxes due. If timely deposits were made, see November 10.

All businesses: most state sales tax returns for the 3rd quarter are due.

Businesses liable for excise taxes must file quarterly excise tax return. Use Form 720.

Employers deposit federal unemployment tax (FUTA) at an authorized bank if the tax is more than \$100. If the amount is \$100 or less, you are not required to deposit it, but you must add it to the taxes for the next quarter. Then, in the next quarter, if the total un-deposited tax is more than \$100, deposit it by the last day of the month following the quarter. Use Form 8109.

NOVEMBER

Employers should request a new Form W-4 from each employee whose withholding exemptions will be different next year.

NOVEMBER 10

Employers who made timely deposits in full payment of income tax withheld & social security & Medicare taxes due for the 3rd quarter, file 3rd quarter return. Use Form 941.

DECEMBER 15

Corporations deposit the 4th installment of estimated income tax.

WEEKLY AND MONTHLY ALL YEAR

Corporations that meet certain requirements may elect, any time during the year, to be treated as S corporations in future years. Use Form 2553. To be treated as an S corporation this year, see Jan. 1.

Employers: tax deposits of social security and Medicare (NOT self-employment) and withheld income taxes required monthly (by the 15th of the following month) whenever amount due is \$500 or more; required 8 times a month whenever amounts due are \$3000 or more.

Businesses liable for excise taxes are required to make monthly deposits on the last day of the month when more than \$100 in excise taxes is collected. For more information, see IRS publication #510.

FISCAL YEAR TAXPAYERS

Individuals: federal tax return 1040 is due the 15th day of the 4th month after the end of your tax year.

Partnerships and LLCs: federal tax return 1065 is due the 15th day of the 4th month after the end of your tax year.

Corporations: federal income tax return 1120 or 1120-S is due the 15th day of the 3rd month after the end of your tax year.

All fiscal year businesses: many states follow the same schedule as the federal government for filing state income tax returns, but some states have different dates. Consult your own state.

Individuals: federal estimated tax payments are due on the 15th day of the 4th, 6th, & 9th months of your tax year, & on the 15th day of the first month after your tax year.

Corporations: federal estimated tax payments are due on the 15th day of the 4th, 6th, 9th & 12th months of your tax year.

Corporations electing to be S Corporations must file Form 2553 by the 15th day of the 3rd month of the tax year.

Employers maintaining an employee benefit, pension, profit sharing, or stock bonus plan, must file Form 5500 by the last day of the 7th month following the end of the taxable year.

APPENDIX C

BASIC BUSINESS REGULATIONS

Note: These apply to the State of Wisconsin. Please consult with your State Department of Revenue and/or Department of Taxation and Finance for information pertaining to your own State.

7402A

BASIC BUSINESS REGULATIONS Revised 6/97

This publication has been developed by the Wisconsin SBDC in partnership with the U.S. Small Business Administration per agreement 7- 7770-0056-17.

A new business in Wisconsin will be subject to some or all of the following regulations through local, state, or federal regulatory agencies. In addition, other regulations are likely to apply. This list is meant to cover the most common requirements and is not exhaustive. The appropriate agencies listed below should be contacted for further information. Working with a small business attorney and accountant is strongly suggested.

1 - FEDERAL EMPLOYER ID. NO. A new business will not need a federal I.D. (tax) number if it has no employees and is organized as a sole proprietorship. The proprietor's Social Security number is used to identify the business. If the business changes to a partnership, or corporation, or if it hires an employee, then a federal tax number will be required. To receive a free federal business tax kit, which includes information on tax I.D. number and regulations covering hiring an employee, (see #12 below), call 1-800-829-1040.

2 - WISCONSIN WITHHOLDING TAX I.D. NO. Similar to federal regulations, no state tax number is required if the business has no employees and is a sole proprietorship. Business income is included on the owner's personal income tax forms. In the first year of business, state business income taxes do not have to be paid until the end of January in the year following start-up. Depending upon the amount of tax liability, the business may then need to pay taxes periodically. Call the Wisconsin Department of Revenue, Compliance Bureau (608) 266-2776. Sales to customers outside of Wisconsin may be subject to tax. This is an issue especially, though not exclusively, for mail order businesses. Check with the Department of Revenue.

3 - WISCONSIN SELLER'S PERMIT/SALES TAX. The sale of almost all products and many services in Wisconsin requires the payment of sales tax. If annual sales taxes are anticipated to exceed \$300, then payment will be required periodically during the year. A Mobile Seller's Permit is required by retailers making sales at non-fixed locations who have more than \$1000 in taxable sales/year. Manufacturers and Wholesalers may be exempted from the tax. Apply for a Seller's Permit from the Wisconsin Department of Revenue, (608) 266-2776. Sales to customers outside of Wisconsin may be subject to tax. This is

an issue especially, though not exclusively, for mail order businesses. Check with the Department of Revenue.

4 - BUSINESS TAX REGISTRATION - cost is \$20. Anyone applying for a seller's permit or Wisconsin Withholding Tax Permit must hold a Business Tax Certificate. Call the Wisconsin Department of Revenue, 608-266-2776 for an application.

5 - CONSUMERS USE TAX PERMIT. The purchase of property or services outside of the state and consumed, used or stored in Wisconsin, can require the payment of a use tax. Check with the Department of Revenue (608) 266-2776.

6 - SOCIAL SECURITY (FICA) TAXES FOR SOLE PROPRIETORS. A sole proprietor business owner pays Social Security taxes quarterly during the year according to estimated income from the business. The taxable base for 1996 is \$62,700 and the self-employment rate is 15.3 %. See below for payment of employee FICA taxes.

7 - BUSINESS REGISTRATION. Businesses operating as a corporation or partnership must register with the state as well as the local county Register of Deeds. Businesses issuing stock must also register with the state. The name of your business can be a very important marketing consideration, therefore, you may want to register your business name with the county Register of Deeds or with the Secretary of State (608) 266-5653 as a trade name. This registration does not give name protection beyond that of common law, but it does make it easier for others to avoid duplication of business names. To incorporate, call 715-265-3590.

8 - BUSINESS LICENSE. Some types of business must be licensed to operate in Wisconsin. Examples are currency exchanges, well drillers and nurseries. Call the Wisconsin Department of Commerce Permit Information Center at 1-800-435-7287 to check if your business requires a license.

9 - ZONING. A business operated in any building must be zoned for business use in the geographic location. An office in the home may need to be in a "commercial" zone if the home office receives clients or regular shipments. Call your local area building inspector or zoning board. In Stevens Point, 346-1567; in Wausau, 843-1320; in Marshfield, 387-1344; in Wisconsin Rapids, 421-8225.

10 - HEALTH INSPECTION. Any business involving the sale of food or lodging will generally require an inspection by the Department of Hotel and Restaurant, Health and Social Services. Call (608) 266-2835 to obtain the phone number for your local County Inspection Office.

11 - SAFETY AND BUILDINGS. Employers must inform workers about toxic substances, infectious agents and pesticides in the work place. Also, any major

remodeling will require that plans be submitted for approval to the Safety and Building Division of the Wisconsin Department of Workforce Development (DWD). Call Safety and Buildings at (608) 266-3151. Local municipalities may also require a building permit. When hiring any employees, a business must conform to certain requirements. Both federal and state laws regulate employment. The following sections briefly summarize the major legal requirements.

12 - EQUAL RIGHTS AND OPPORTUNITY. In Wisconsin, it is illegal to discriminate against job seekers and current employees on the basis of sex (including pregnancy), age (40 and over), race, color, national origin, ancestry, religion, handicap, sexual orientation, marital status, and, in most cases, arrest or conviction record. Call Department of Workforce Development's Equal Rights Division at (608) 266-6860.

13 - PAYROLL TAXES. There are two types of payroll taxes; those withheld from employees' pay (which includes wages, bonuses, tips, cash and non-cash benefits), and taxes paid by the employer. Withholding from employee pay is required for Social Security (FICA) taxes and for federal and state personal income taxes. Employers need a federal tax I.D. number and employees need to fill out W-4 and WT-4 forms. Call the Wisconsin Department of Revenue at (608) 266- 2776. The federal tax kit (see #1 above) includes information on federal withholding requirements. Unemployment Compensation coverage for employees must be contributed by most employers. This is done in the form of a percentage of payroll tax. Call the Department of Workforce Development at (608) 266-3114.

14 - WORKER'S COMPENSATION INSURANCE. Most Wisconsin employers must carry a special insurance to cover liability due to work-related employee injury or illness. Call Department of Workforce Development Workers' Compensation Division. Claims or Administration (608) 266-1340; Insurance purposes (608) 266-0416.

15 - LABOR STANDARDS LA W. Both federal and state laws cover a variety of issues relating to the pay and treatment of employees. The following is a partial listing of areas covered by regulations: Minimum Wage; Overtime Pay, Sexual Harassment, Employment of Children, Prevailing Wage Requirements. Call the U.S. Department of Labor, Wage and Hour Division (608) 264-5221 and Department of Workforce Development's Equal Rights Division (608) 266-6860.

16 - INDEPENDENT CONTRACTORS. The State of Wisconsin presumes that any worker is an employee unless an employer can prove otherwise. This is an area often misunderstood by small businesses. Call Wisconsin's Department of Revenue. (608)266-2776

17 - EMPLOYEE BENEFITS: INSURANCE, PENSION, AND PROFIT SHARING. Employers who pay voluntary benefits are subject to regulations aimed at protecting workers from mismanagement of funds and discrimination. If you provide voluntary benefits, consult an attorney about the Employee Retirement Income Security Act (ERISA), Section 89 regulations and other applicable laws.

18 - IMMIGRATION LAW. Regulations require that employers take steps to insure that employees are eligible to work. You will be required to have new employees fill out an I-9 form.

19 - OSHA - OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION. There are regulations and standards for work place safety. To determine the nature of required compliance, contact OSHA's regional office at (608) 264-5388. For a free consultation on occupational health or industrial hygiene regulations call (608) 266-9383.

20 - POSTING OF LABOR LAW POSTERS. Employers are required to post various posters to inform workers of their rights under labor regulations. Each regulating agency contacted should be asked about posting. Requirements include the posting on non-discrimination and safety law notices.

APPENDIX D

JOURNAL ARTICLES USED IN SECONDARY RESEARCH

Home Invasion - Before anyone crosses your threshold, make sure you know what you're in for. Learn how to hire right.

HomeOfficeMag.com - October 1998

By Moira Allen

URL: <http://www.Entrepreneur.com/article/0,4621,229348,00.html>

Stacks of paperwork crowd your desk like high-rises. The phone never seems to stop ringing. On your desk, a photo reminds you that you have a family--but you've hardly seen them in days. You're juggling four projects and are considering taking on a fifth. You need help!

At the same time, you're not sure you're ready to make the transition from "self-employed" to "employer." On the practical side, the transition would mean having to deal with additional accounting tasks: payroll, taxes, benefits and insurance. On the personal side, hiring means bringing someone into your home to interact not only with you and your clients but also with your spouse, your kids and your dog. The thought of making it all work may seem even more intimidating than handling your workload by yourself. Not to worry--other home-based entrepreneurs have managed, and so can you.

Before you decide to hire, find out if local regulations permit you to have employees in your home. In some areas, a special zoning permit is required. You may also need additional insurance; make sure you've got liability coverage in the event an employee is injured on your property.

Next, determine the type of help you need. Do you want someone to assist with the primary tasks of your business? Or are you looking for someone to handle the filing, typing and phones? Make a prioritized list of the tasks you want your employee to perform; use it to form the basis of your job description.

While job descriptions aren't required by law, entrepreneurs agree they're extremely useful. "During an interview, it's important to have a list [in front of you] of exactly what you want," says Jennie Hannah, owner of Occasions Catering and Special Events in Olympia, Washington. Hannah hired her first employee eight years ago; today, she has five full-time employees and 25 part-time servers on staff.

A job description is a tool you can use to evaluate candidates. It also provides prospective employees with an idea of the duties involved in the job they're applying for--ensuring you both have the same "view" of their job responsibilities-

-while providing you with a means of evaluating performance. (It's much easier to fire an employee for poor performance if you've established written guidelines in advance.)

Make your job description simple yet thorough. The Business Owner's Toolkit Web site (see "Online Resources" on page 75) recommends listing not only tasks but also the skills required to complete those tasks. For example, if you're seeking a receptionist, you might specify courtesy, good verbal communication skills and exceptional interpersonal skills. For an office administrator, you might ask for organizational ability, accounting experience and computer skills.

Your description should include the job title and the hours involved. Some entrepreneurs include a salary range; others prefer to negotiate that at the interview. According to Hannah, establishing a competitive salary range is the key to finding and keeping qualified personnel, since a range that's too low may attract underqualified applicants and compel qualified personnel to pass the opportunity by. Hannah also recommends scheduling regular salary increases to reward performance.

Remember, a salary includes not only the actual amount you pay your employee but as much as 30 percent in additional overhead as well. This includes federal and state withholding taxes, Social Security and Medicare (FICA) taxes, workers' compensation insurance, long-term disability insurance, vacation holiday pay, and other benefits. Benefits requirements vary among states.

For many, payroll and tax issues are the most intimidating aspects of hiring. Hannah has a solution: Hire someone who has bookkeeping skills. "Why make more work for yourself," Hannah reasons, "when the whole purpose of hiring is to reduce your workload?"

Many homebased entrepreneurs first look to family and friends when recruiting employees. Debbi Boyd, owner of Olympia, Washington-based BRIM Inc., a cleaning services company, notes that "[inviting employees] into your home is like making them members of your family, so it's easier when they're family to begin with." Another option is to consider asking family, friends and even clients for referrals.

If these avenues don't pan out, try advertising. If you prefer not to list your home address, rent a mailbox for ad responses. (Similarly, if you prefer not to conduct interviews in your home, arrange to meet applicants at a public location, such as a coffeehouse.) As you receive responses, weed out those applicants who are underqualified or overqualified. While the latter may seem tempting at first, those candidates are more likely to move on once a better opportunity arises.

Review resumes for specific examples of work experience, such as tasks, responsibilities, accomplishments and positions held. Watch out for vague terms like "highly motivated communicator" or "detail-oriented supervisor." Look for unexplained gaps in employment history or a series of jobs held for short periods of time--trademarks of a "job hopper." Note spelling and grammatical errors; you don't want someone who can't proofread his or her own resume to handle your correspondence.

"Insist on references, and check them all," Hannah advises. Call previous employers, personal references and colleges to make sure the applicant has actually held the positions and earned the degrees claimed. If you're hiring young employees with little or no experience, Hannah recommends talking to teachers or relatives.

Jot down interview questions in advance, and rehearse them with a family member or friend. Develop open-ended, information-gathering questions, rather than questions that can be answered with a simple "yes" or "no." For example, rather than asking "Do you enjoy office work?" ask "What do you like best about office work?" or "What do you consider your strongest administrative skill?" Instead of asking "Can you handle customer complaints?" ask them to describe how they might handle such a situation.

Be sure you know what types of questions you can't ask, including questions about age, ethnicity, religious affiliation, and marital or family status. If you're concerned about how an applicant's personal situation might affect his or her work ability, keep your questions focused on the job. Instead of asking whether an applicant is willing to be away from his or her family for periods of time, for example, ask whether or not the applicant is willing to travel.

Keith Walton, CEO of Propaganda, a San Francisco firm that markets antique "props" for merchandising displays, notes that an interview should do more than determine an applicant's skills. "Think about who you would want in your home and the type of energy that person will bring into your home," he says. "Will that energy be chaotic or peaceful? Look for someone who 'matches' you, someone you'd want to spend time with." Walton and his partner, David Tyreman, prefer to hire employees with a sense of fun: "You don't want someone in your home who can't crack a joke or a smile," Walton says.

Hannah, who recommends putting new hires on a month-long probation, agrees: "If you're working closely together, you have to get along. You have to know what type of person you're hiring." Trustworthiness, she says, is an important criterion. And this applies to more than your personal relationship. You have to feel you can trust this person with your business.

The primary downside to inviting employees into your home is the resulting lack

of privacy. Your lifestyle, Walton notes, is on constant display: the unwashed laundry, the pizza box on the floor, even prescriptions in your medicine cabinet. He suggests examining how your lifestyle may affect the way employees view you. Will they respect you as a strong, capable boss if they see your pink bunny slippers in the bathroom?

Walton points to another consideration: "If you've built a successful business, you want to reward yourself for that success, and this can sometimes create resentment." While traditional CEOs go home to a house their employees will never see, yours won't miss the fancy new car in your driveway or the new furniture in your living room.

According to Walton, your most important task is to separate your work and your home, both mentally and physically. Creating boundaries is crucial, he says, and the first step is to establish "no go" areas for employees. "In a normal office, if you step out for lunch, you can't be reached," he says. "In your home, however, this could mean stepping into your kitchen for a sandwich or into your living room for a chat with your spouse. It's tempting for an employee to feel that since you're so close, you're available to take calls or answer questions." Walton adds that your staff also needs to understand that when you leave the official work area, you have "left the building" and can't be reached, even if you're just a few steps away.

Walton also recommends establishing "no go" times for your employees. "You don't want to have someone in your home when you're not there," he points out. "Also, if you want to stop working at 5 p.m. but someone else may be finishing a project, it may be hard for you to switch off and 'go home.' Nor do you want employees showing up for work early, while you're still in your pajamas drinking coffee." His recommendation is to establish specific work hours--and to give employees the freedom to take work home, with the assurance they'll be paid for that time.

But the most important step of all, says Walton, is to observe your own rules. If you blur the boundaries between work and home--eating lunch at your desk or leaving the kitchen door open when you're on a break--you can't expect your employees to respect those boundaries. "Your staff needs clarity," he says.

Boundaries are also important from your employees' perspective. While you're used to your home's idiosyncrasies, employees may find it difficult or unpleasant to work in a dirty, cluttered, noisy or disorganized house. Employees might not appreciate sharing a bathroom with a litter box, making lunch amid piles of unwashed dishes or trying to work around mounds of personal clutter. Shouting children, barking dogs and loud music can also disrupt employees. Such an environment may lead to a higher turnover rate.

Hannah and Boyd offer the following tips to help you handle these issues:

- Hire a housekeeper. Don't add to your workload by trying to keep a spotless home/office; let someone else do it for you. This will not only help you keep your own messes private, but will also make sure you won't be stuck cleaning up your employees' messes.
- Designate a work area for your employees. Even if you can't provide an office with a closed door, make sure your employees have a designated area to store paperwork, projects, equipment and personal items.
- Install a vending machine. "Whenever I went to the refrigerator, someone had always taken the last Pepsi, says Boyd. To solve the Pepsi problem, she installed a soft-drink vending machine and also placed a mini-fridge in the garage for employees to use. You might also install a snack machine and set aside a specific area of the sink with coffee supplies for employees.
- Designate an employee bathroom. Keep the bathroom clean, well stocked and off-limits to the rest of the household.
- Try to arrange for off-street parking. This is important, as the zoning laws in some neighborhoods require it.
- Be flexible about hours. If your home office is in a residential area, employees may have to drive some distance just to pick up a sandwich. Longer lunch hours give employees a much-needed break.
- Remember that your employees are not babysitters. Clear lines should be drawn between work and family. Ensure that family members don't disrupt your employees' work; and don't expect an employee to take care of pets or plants.

Hiring an employee to work in your home affects the entire family. Before you make the decision to hire, discuss the situation with everyone involved. This will help you identify needs and potential problems in advance, and will also help establish ground rules for everyone. Only take on the employees you really need, so it will be easier to keep the help you hire. Hopefully, you can find someone who will not only grow with your company but also help your company grow.

- You have to turn down assignments due to time constraints.
- You miss deadlines or don't complete assignments satisfactorily.

- You spend more than 50 percent of your time handling tasks like typing and filing.
- You consistently work more than 10 hours per day, plus weekends.
- You often miss one or more meals during the workday due to lack of time.
- Your family complains about your lack of attention (or worse, you've begun to snap at family members for intruding on your work time, even though it's a weekend).
- You cancel activities with your family to catch up on work.
- You have to hire contractors or temporary employees to help you catch up.
- You feel stressed and overworked, and your health is beginning to suffer (e.g., you've begun to experience headaches, insomnia, indigestion and similar stress related problems).
- You're beginning to wonder whether your business is worth the hassle and stress.

There's no magic number to this quiz. For some, just one of these symptoms is enough to demonstrate the need for assistance. Others may discover they've already scored a "perfect" 10--a good indication it's time to hang a "help wanted" sign in the window.

APPENDIX E

JOURNAL ARTICLES USED IN SECONDARY RESEARCH

Home Grown

Author: Jill Andresky Fraser

Source: Inc magazine - December 01, 1999

URL: <http://inc.com/incmagazine>

These days some of the most ambitious company builders are starting serious growth businesses from home. Think that gives them a credibility problem? Not to worry

You know -- and we know -- that there are misperceptions in the marketplace about home-based businesses. At an estimated 14 million strong, and with about half a million more starting up each year, this is a far more sophisticated and ambitious entrepreneurial crowd than the part-time hobbyists, stay-at-home parents, and laid-off executives that some people still consider to be the norm. As evidence, look no further than the Inc. 500 class of 1999: a whopping 48.5% reported starting their companies in their homes.

Several recent trends have combined to encourage even the most growth-minded business owners to be stay-at-homes. Thanks to technological developments, especially the Internet, home-based companies have greatly increased their capabilities. Also, recent changes in tax laws provide financial incentives to keep start-ups and young companies at home. And new resources aimed at small growing companies make it easier than ever to take care of essentials in a cost- and time-effective manner while allowing founders to focus on their chief priority: jump-starting their companies' growth.

Still, home-based-business owners face plenty of challenges, including combating the clichéd preconceptions in order to establish credibility in the marketplace. The key is to mind your p's and q's: stay abreast of technical, financial, and legal issues, and remember that the important thing isn't where your business is located -- it's how well positioned it is in the marketplace.

Complying with local and state laws

The CEO of a financial-planning firm declined to discuss her company on the record because her co-op board doesn't know that she meets clients and performs almost all business activities from her New York City apartment. Some financial planning, that! Such subterfuge can come back to haunt an entrepreneur in many ways, from financial penalties or city-government-imposed business closures to ill will within the community.

Robert Tarutis, by contrast, investigated local and state regulations before he

started his company, in December 1995, out of a spare bedroom in his Waltham, Mass., home. Tarutis, the president of Tarutis Communications Group Inc., a public-relations and film- and video-production company with 1999 revenues of about \$250,000, confides, "My biggest fear was that I'd be getting ready to set out from home to produce a film for a client when some guy with a truck would back up over the curb and squash a camera. Then, suddenly, someone from the city would appear and ask, 'What was a filmmaking business doing here?'" Instead, he explains, "I wanted to present myself to my community as the owner of a business that was real and serious and deserving of respect. Before I even had my business stationery printed, I wanted to be sure that my company would be in compliance with all the rules."

Some cities require home-based-business owners to fill out special forms. And some of the requirements depend on the nature of the business. Tarutis, for example, learned by a call to city hall that he didn't need a business permit. If he'd had customers trooping in and out, however, he would have been required to apply for a zoning variance.

Before John W. Nelson III opened the Capital Connection, his financial-consulting firm, out of his home in Newport, R.I., he went to City Hall. He wanted to make sure that it was all right to start a home-based business and that his neighborhood's zoning regulations allowed it. Nelson found out that he needed to get a certificate of approval from the city, which involved filling out a one-page form and submitting a document (available at office-supply stores) specifying that as a business owner he formally leased office space from himself as a homeowner. "I needed this package to be approved by the city's tax and zoning offices, and then I paid \$10," says Nelson. The whole procedure, he adds, took half an hour.

Deciding when to incorporate

The issue of incorporation is important for any business owner. Whether you're based at home or someplace else, you have to examine the tax, legal, and estate-planning implications. For Tarutis, that was the most complicated legal matter he faced. He decided, in the end, to incorporate at a very early stage. "After consulting my attorney and my accountant, I decided to switch from sole-proprietor status to an S corporation because I wanted to combine tax advantages with limited liability," he says. Changing to an S corporation made things tougher for Tarutis, because "suddenly there were all kinds of state requirements that I needed to worry about, like getting workers' compensation insurance."

He is convinced, though, that "it's shortsighted to skip legal measures you know you should take -- because you risk creating all kinds of potential problems for yourself down the road, especially if your company has real growth potential. If you've got a good lawyer or accountant to advise you, you can always fax any

state or local paperwork that you don't know how to handle on your own."

As his business grew to 10 major clients and a payroll that sometimes includes as many as 30 full-time, part-time, and freelance staffers, Tarutis relocated from a spare bedroom to an extension built off the side of his house. Recently, he moved headquarters to a small office suite five minutes away. Don't expect him to close up his home shop anytime soon, however. "Although I'll lose the tax deduction, I'll keep it going," he says. "I still intend to be there as much as I can."

Getting the right insurance

A fair number of home-based-business owners confided -- off the record -- that they didn't have any additional insurance coverage, because they either were strapped for funds or just assumed that their homeowner's insurance policy would cover any problems that might arise.

"That's the biggest mistake a business owner can make," says Dan Peterson, manager of risk management for Larson, Allen, Weishair & Co. LLP, a accounting and business-consulting firm in St. Cloud, Minn. "Most homeowner's policies exclude business pursuits from their coverage, so insurers can easily terminate coverage or refuse to pay claims if a customer has not disclosed the operation of a business in his or her home." It's easy to imagine the tip-offs: a fire, theft, or other catastrophe might necessitate the filing of a hefty insurance claim for losses tied to suspiciously large investments in computer equipment or customized business-software products, commercial inventories, or machinery and equipment that seem excessive for home use.

Historically, it's been tough for home-based-business owners to find property-casualty, health, or disability coverage because they've had two strikes against them. For one thing, they face the same difficulties that small- or start-up-company owners do: insurers often balk unless a business has been around for three years and has at least a handful of employees. To make matters worse, many insurers have basically shunned home-based operations, fearing that they might not be stable, long-term ventures or that they might lack adequate safety and other precautions.

Jon Feld started Navigator Systems Inc., an information-technology consulting firm in his 800-square-foot apartment in Dallas eight years ago. He recalls getting nixed by several insurers because, as he puts it now, "I didn't have a business address separate from my home address." Although his internal-management goals were right on target -- to obtain commercial and medical insurance as quickly as possible -- it took Feld and his two employees some time to achieve them. "We had a lot of misfires even though we were working with an insurance agent, which we thought would help us reach the right insurer quickly." Finally, thanks to that agent's advice and some tips from another home-based-business owner who had confronted similar hassles, Navigator, now an \$8-million

company, was able to purchase both medical and commercial coverage. Fortunately, there have been recent improvements on the insurance front. Some insurers have loosened policy restrictions, and some have even started to aggressively promote their products to the growing home-business market. The best place for founders to start is with the company that already provides their homeowner's policy. Some insurers are willing to issue an endorsement that will extend home coverage to the home business. Typically, there's an additional fee, but it is usually under \$600.

However, as insurance-expert Peterson warns, "Most insurance companies are pretty selective about what type of home-based business they'd be willing to cover, if they're willing to do so at all." If your ventures involve lots of visits from customers or suppliers, production operations that can be viewed as risky, or highly specialized professional skills or equipment, your insurance company will probably reject your application for an endorsement. Such decisions can best be described as quirky. What one company may deny, another may approve. It's a good idea to put together as big a list of insurers that sell in your state as possible. Also, if you're tempted to downplay or disguise certain facts in order to qualify for an endorsement, understand that the insurance company could deny your claim or even drop your homeowner's coverage.

If you don't qualify for an endorsement, apply for a commercial policy, which provides the same coverage as any basic business policy. In order to find the most cost-effective coverage from among those insurers willing to cover home-based businesses in your state, your best bet is either to work with an agent who deals with multiple insurers or to get coverage that is available through membership in a business organization.

For example, the Central Rhode Island Chamber of Commerce sponsors a "Homebased Business Association," which enables its members to purchase workers' compensation and health insurance at a group rate. "Groups like ours stay on top of state regulatory trends that might affect small-business owners," explains executive director Renée Fullerton. For example, she says, "When we learned about a new law that was going to require small-business owners in our state to have workers' compensation coverage if they employed even one person, we went out and negotiated a group rate with one of the big local carrier so that our members could get coverage at a 15% discount." Unfortunately, there's no national roster of insurance-buying pools open to home-based businesses. To find one in your region, check with your chamber of commerce, the Small Business Administration, the Service Corps of Retired Executives, or trade associations.

Other kinds of coverage, some quite new, are also worth investigating. Peterson recommends business interruption coverage, which indemnifies for the loss of profits and continuing fixed expenses when a disaster prevents business from

being carried on. The coverage is a good idea for any business owner. The twist for home-based-business owners is to shop for policies that include an extra expense clause. "In the event of a catastrophic event, that clause would cover extra expenses incurred as the business owner attempts to continue to operate his business," says Peterson. For instance, a home-based-business owner might need a short-term lease for office space and equipment at a temporary location outside the home, adding new costs that could create a cash-flow crunch and perhaps even jeopardize the company.

Another sort of coverage to consider for certain types of businesses -- say, high-end consulting firms -- is intellectual-property protection. The policies come in two forms, both pricey: defense protection covers you and your employees from accusations by outsiders of infringement; pursuit protection covers you when outsiders improperly use your company's ideas. Breach-of-security coverage, also expensive, protects against losses from unauthorized electronic access, most commonly by hackers.

Raising capital

Sheila Lovell had already founded, grown, and sold one successful home-based business, a landscaping company in Massachusetts, when in late 1996 she purchased another. She set up the new business -- a tiny, barely afloat manufacturer of fishing charts named Captain Segull's Nautical Charts -- in her new home, in Portsmouth, R.I. "I bought the company for \$40,000, even though it only had about \$15,000 in annual sales, because I believed that it really had tremendous growth possibilities," she says.

To achieve that growth, Lovell needed capital. She wanted to research and create new charts -- to add to the line of 15 that the company already printed and wholesaled -- and increase marketing efforts to the world of marinas, bait-and-tackle shops, and other fishing-supply retailers. But despite her history of entrepreneurial achievement and successful banking relationships outside the state (where her last business credit line was an unsecured loan of \$100,000), her loan application to one of the biggest lenders in town was met by one requirement after another. "I got a sinking feeling in my stomach and a wicked headache," she recalls. "I could see that I had some big strikes against me, including the fact that I'd bought a very small company with unproven potential, and that I planned to operate it out of my basement, which might strike some bankers as a sign of not being serious."

Although Lovell knew she needed a substantial credit line, she had no intention of relocating her headquarters just to raise cash. "Operating out of the home has always been fabulous for me. It gives a business owner a financial advantage because it really keeps your costs down, and that allows you to funnel most of your cash flow into growth activities that matter," she says.

Lovell contacted her local chamber of commerce, which put her in touch with the Capital Connection's Nelson. A former banker and a home-based professional himself, Nelson is a specialist in helping small-company owners access capital by using a rigorous approach that emphasizes credibility and creditworthiness.

Trouble is, Lovell wasn't gunning for a small loan; her business plan called for a credit infusion of about \$70,000 to help her produce 10 new charts within a year, which she viewed as the easiest way to crank up sales quickly. With the higher revenue base she expected to earn from those new charts, she planned to channel excess funds into the production of even more charts.

From Nelson's perspective, there are several reasons why home-based-business owners can have a tough time attracting financing -- maybe even a tougher time than other small-business owners. "Some bankers, especially older ones, do tend to have preconceptions, which is why one needs to work very hard on a business plan that will document a company's strengths and potential," he says.

Also, bankers look for collateral. "If your company itself doesn't have anything worth collateralizing, an owner will have to put up his or her house," he notes. "For those people who are renters and lack other kinds of collateral, it may be simply impossible to get a bank loan at an early stage."

Nelson urges home-based owners to address the credibility problem by putting together a financing application that over-proves their case. It might include copies of signed contracts or letters of intent from customers, which, he says, "won't count as collateral but will help a banker build up a warm-and-fuzzy feeling." In addition to the financial statements, projections, and tax records that would typically accompany any application, Nelson recommends including such documents as a signed lease for the home-office space (ideally one that spells out some type of payment from the company to the home owner); a floor plan that clearly illustrates the business's separate work space; and relevant paperwork, such as municipal and state guidelines, required permits, insurance certificates, and documents of incorporation.

It's also important that business owners be open about the nature of their operations and not project any embarrassment or lack of confidence about being based at home, according to William A. Tanenbaum, chairman of the Computer, Internet, and E-commerce Group at law firm Kaye, Scholer, Fierman, Hays & Handler LLP in New York City. "That should be a completely neutral factor provided the entrepreneur handles it correctly," he emphasizes. "Don't be apologetic. Don't be defensive. These days, a person's office is wherever his or her modem is, and there are very few limits to what can be done at home. But the essential message that you must convey to investors or bankers is that you are every bit as serious, sophisticated, and growth minded as you would be in any other location."

With Nelson's help, Sheila Lovell accomplished her fund-raising objective, securing \$70,000 from a local bank in an SBA-backed credit arrangement in 1997. "Last year the company sales were \$78,000, with fixed costs of \$48,000," she says. "This year in the first eight months we've sold \$112,000 worth of charts, and our fixed annual costs are still \$48,000 because we're still operating out of the basement!"

Deciding whether to stay home

It is often easy for entrepreneurs to see why it makes sense to start their companies at home. But figuring out if it's time to relocate is a tougher call. (See "Start a Business at Home? You've Got to Be Kidding," below.)

For Jon Feld of Navigator Systems, the push to relocate was his need to expand staffing beyond a group of close friends. "It seemed a little ridiculous to interview total strangers in the living room," he says. "It was hard enough to get people to join a company of 25-year-olds, no matter how strong our business seemed."

But the impetus to leave home may come from any number of directions. Products, not people, crowded out Terri Alpert, the founder and CEO of Professional Cutlery Direct LLC, a mail-order and E-commerce company in North Branford, Conn. Alpert spent nearly two years operating from home. "My business plan called for one year at home, since it was the only way that I would be able to bootstrap my initial \$8,000 investment," she says. But after a while, her laptop computer, five phone lines, and warehouse (oops, we mean basement) full of inventory could scarcely keep up with the company's growth. "We were packed to the rafters. And then, one season, I was forced to make decision not to add new products because there wouldn't be room for them. That was a very strong signal that it was time to move."

Alpert has advice for other home-based-business owners who might be considering the switch. "You've got to consider the financial issues," she says. "For us the question was pretty straightforward: could we afford the \$700-a-month rent we'd have to pay, as well as the extra cost of utilities? When I looked at our cash flow, I was certain we could -- and that our pattern of growth was such that we wouldn't experience unexpected cash shortfalls and need to move back home." Because of her determination to remain fiscally conservative, though, she at first rented a small space, which she left only when it became evident that the company was going to keep growing.

Jeffrey S. Levine, a partner with the CPA firm Alkon & Levine PC, in Newton, Mass., suggests that home-based-business owners draw up two columns. "In one, consider all the financial advantages of being at home -- no office rent, lower telephone and utility costs, and so on," he says. "In the other, project your increased costs -- office rent, changes in insurance, extra utilities, office cleaning, real estate taxes, additional supplies or furniture, commuting, and, of course,

whatever home-office deduction you'll be losing." It also makes sense to estimate the benefit of the corporate tax deductions you'll be able to earn owing to higher operating expenses. Levine warns that "an initial cash-flow hit is almost inevitable because of the costs of the move, possible requirements for deposits on utilities or office rentals, and the likelihood of needing new furniture and equipment." Setting up a credit-line arrangement in advance can be a big help.

But don't be afraid to leave home just because the decision-making process can be complicated. "Our sales were nearly \$5 million last year, and I have absolutely no doubt that this kind of growth would have been impossible if we had stayed at home," says Alpert, who currently employs 44 people. "It was the right place to start, but we needed to move on."

Jill Andresky Fraser is Inc.'s finance editor.

When you're no longer home alone

Once you begin hiring people to help you out in your home business, question will arise about taxes, insurance, and other employee-related regulations. It's good idea to think them through ahead of time.

Q: If I hire other people, will that affect my home-office tax deduction?

A: Not at all.

Q: If my employees work out of their homes, will they be able to claim their own tax deductions for the costs of that space?

A: That's less certain. They should be able to, so long as they are independent contractors whose work operations are based primarily in their homes. (Then they need to meet the guidelines described in "Taxing Matters," page 98.) But if they are regular employees of your company, in most cases they will not qualify for their own deductions and should consult an accountant before trying.

Q: Are the general business rules regarding payroll taxes, employee benefits and other human-resources matters different for home-based companies?

A: Not at all. So it is essential to comply with all federal and state guidelines, as well as any municipal ones that may exist. That's an area in which you should definitely rely on qualified legal and accounting advisers instead of trying to wing it.

Q: Will my insurance needs change if I hire employees?

A: Probably. Among other things, your state will likely insist that you pay for workers' compensation insurance and may even require a minimum level of liability coverage. You'll also need to inform your current insurer, who may insist that you amend your policy or seek coverage elsewhere. Seek guidance from your lawyer or accountant.

Q: How should I handle the issue of family members who get involved with the business?

A: If you hire them as employees or independent contractors, the tax insurance, and other rules are the same as those for your other hires. But if you use them on a more informal basis, you may be setting yourself up for insurance problems if unexpected injuries or other work-related problems occur. Check with your insurance carrier to make certain that your homeowner's policy or endorsement would cover such situations.

Taxing matters

Let's face it: the tax deduction for business use of your home may be used, abused, and fantasized about more than any other deduction in the rule books. Although most entrepreneurs agree that they'd be crazy not to claim the deduction -- if they qualify for it -- persuading them to discuss the specifics of the tax benefits they've received and the tax strategies they've relied on is almost impossible. "People don't like to draw attention to themselves on this subject," is the way one financial adviser puts it. That's probably understandable: plenty of business owners believe that they raise the risk of an audit simply by claiming the deduction.

But let's deal with reality here. For those entrepreneurs who carefully track their business expenses and keep comprehensive tax records, the home-office deduction can add up to a lucrative benefit. After all, as Jeffrey S. Levine of Alkon & Levine, in Newton, Mass., explains, "In our firm's experience, the average federal taxpayer is in the 28%-to-31% tax bracket, the average state income tax is in the 5%-to-6% range, and social-security tax for a self-employed person -- which is the way many home-based-business owners start out -- is 15%. So in many cases self-employed people are looking at a combined tax bracket of around 48%, which means, very simply, that every dollar you can document and deduct in home-business expenses will save you 48¢ in taxes."

Now for some background. For several years the home-office deduction was a dicey matter, thanks to a 1993 case in which an anesthesiologist battled his way to the Supreme Court in an effort to defend his right to deduct expenses relating to a home office. In denying his claim, the Court established a restrictive set of guidelines that basically allowed a deduction only in cases in which taxpayers earned their revenues at home. (Since the anesthesiologist performed his job at a hospital, he didn't qualify.)

Fortunately, Congress intervened with a new set of rules that went into effect this year. Those broadened the guidelines, permitting businesspeople who used their home offices exclusively and regularly for administrative and management purposes (such as paying business bills, writing marketing material, and calling clients and suppliers) to take the deduction, so long as those functions were not

also performed in any other location. Two caveats: Although today's guidelines are looser, they are still specific, so check with an accountant or lawyer to make certain that your company meets the standards. Also, the home-office deduction is limited if your business's gross income is less than or equal to its expenses. (In those cases, the unclaimed expenses can be postponed for future use.)

If your company meets the current guidelines, you should be able to deduct the following expenses that are relevant to your home-based operation:

Depreciation on business furniture and equipment. According to the IRS, you can depreciate furniture and equipment, such as computers, desks and chairs, file cabinets, copiers, and fax machines, over five to seven years.

Depreciation on the portion of your home that is used for business purposes. You can depreciate the business part of your home over 39 years. Keep in mind that this is the one deduction that carries a cost with it, since when the home is sold, business owners may owe taxes on any depreciation costs they've deducted. For that reason, analyze the pros and cons with your accountant.

Other real estate expenses. These would include real estate taxes and home-mortgage interest. As they do with all expenses that are shared between the personal and business parts of a home, entrepreneurs are entitled to deduct the portion of those costs that relate to the business. More on that below.

Strictly business expenses. Included in this category are the costs of special business-insurance policies (or the cost of amending a homeowner's policy), additional utilities, home-business cleaning, and repairs on office equipment. Other home expenses that can be justified on a strictly business basis (such as the need to install a pricey security system) also qualify for a full deduction.

When you claim deductions on a prorated basis, it's essential to make careful calculations and be prepared to back them up in the event of an audit. Ron Kolquist, a partner at Larson, Allen, Weishair & Co., advises business owners to "draw up floor plans of their homes that clearly document the square footage used for personal and for business purposes. Then you can deduct home-office expenses based on the percentage of the home's total square footage used exclusively for business."

Owners can also claim business use of the home based on a room count, but unless all rooms are basically the same size, the owners may not be able to substantiate the deduction. Overstating your claim about which portions of the house you're using for business can easily backfire. So don't try to claim shared spaces like bathrooms or kitchens.

The tax deduction for business use of the home can be tricky. Ken Hawk, the founder and CEO of iGo.com, in Reno, Nev., says that when his start-up was based out of his home, he "relied on the advice of a top-quality CPA for everything related to taxes, and that person handled my personal return as well as the company's." He emphasizes that "it's really important to pay attention to the letter of the law. There's no point in creating problems for a company that otherwise has great potential."

Kolquist notes, "In 17 years of practice, I've only needed to support a home-office deduction four times. And in each case my client and I brought in a marked-up floor plan and successfully proved our case." He adds, "Of course, keeping some photos in your files that can also back up your claim probably wouldn't be a bad idea."

The best of the Web

Here's a sad reality for any home-based entrepreneur hoping to use the Internet to save time and money on essential business matters: there is so much junk floating around in cyberspace relating to so-called HBOs (home-based offices) that Web surfers are much more likely to waste both time and money than to save them.

A case in point: The Web site of the American Association of Home-Based Businesses seems promising at first glance. The trouble is, the site consists mostly of a pitch to attract members at \$30 a year for benefits -- such as membership in a discount-travel association and low-cost office products that are easily found elsewhere. The advice offered by the site is along the lines of "invest in a sturdy, four-drawer file cabinet" and "limit the number of papers in each manila file folder to 20." Hmmmm.

As a general rule of thumb, home-based-business owners will find high-caliber advice -- and good bottom-line payoffs -- from the best Web sites that serve larger businesses. After all, most issues relating to finances, marketing, raising capital, and the like are relevant to all growth-oriented companies.

Still, if you are searching for specific HBO advice, try visiting these three sites:

www.hoaa.com will bring entrepreneurs to a business organization that charges a \$49 annual membership fee. But in this case membership brings a number of real advantages: low-cost health insurance, UPS discounts, hotel and car-rental savings, and -- an unusual but appealing benefit -- inexpensive rates for using a collection agency to pursue slow-paying customers. For those Web surfers who want to browse but not buy, the site also boasts a high-quality network of Internet links to legal, government, and other relevant sources.

www.iii.org is not devoted purely to the home-based-business community,

but is a good source of insurance information. Visit this site to learn the basics before you comparison shop for insurance policies or brokers.

www.homeprofessionals.com has plenty of strikes against it. Serious home-based entrepreneurs may be put off by the hokey products that the site markets, including some cutesy-poo coffee mugs and "homework" posters. But there's one good reason to check out this spot: its comprehensive list of books that address various challenges for home-based-business owners.

Start a business at home? You've got to be kidding

CEO: Ed Storey

COMPANY: Essex Builders Group Inc., Winter Park, Fla.

FOUNDED: 1991

ANNUAL REVENUES: \$65 million

I'm not sure you want to ask me about running a home-based business. Mine only lasted for two weeks.

"That was in 1991, when my wife and I founded the company. Well, before opening the business I did spend a month arranging for the insurance and checking out the zoning rules and taking care of whatever other paperwork was necessary. I arranged for separate lines for my office phone and fax, and got a copier and the other supplies and equipment the business would need.

"We have a fairly big house. The idea of running the business from home seemed to make sense. We could clearly document our work activities, deduct legitimate business expenses, and control our costs. It would even be easier to work night and day, if we needed to do that.

"The thing is, it became clear to me very quickly that there were a lot of distractions in the house. At that time, I had two sons at home -- one in high school, one in middle school. On top of that, the phone was always ringing, what with solicitations and personal calls. We had a house cleaner once a week. There were always interruptions.

"But even more than that, there was a problem of image. When you need to meet with clients, saying that you're operating out of your house doesn't work. What I soon realized was, if you're in a service-oriented business, your credibility is the quality of your production and your image, but if your company is a start-up, all you've got is your image. And being based out of your home doesn't give you an image of business stability.

"It was time-consuming to change all the phone lines and insurance in order to make the move to a corporate suite, but it was the right move. The extra expense

was not significant, and there were many benefits that outweighed it, including my company's proximity to other businesspeople. I have no doubt that we could not have grown the way we did during the past eight years if we had stayed at home.

APPENDIX G

GLOSSARY OF BUSINESS TERMS

Accrual method - Accounting method often used by businesses with inventory; with this method you report income and deduct expenses when the work's done (you've done all the things you have to do to get paid and all the expenses have been incurred).

Business plan - A written report describing what a business is all about and where the business is heading in the future. Used as a loan proposal.

C corporation - Corporation organized under state law and taxed as a separate person (a regular corporation).

Cash method - Accounting method often used by service businesses. With this method you record income when your client pays you and deduct expenses as they come up.

Employer identification number - Number assigned to a business owner by the IRS after you file IRS Form SS-4. This is used for identification purposes on tax returns, bank accounts, and retirement plans.

Entrepreneur - Someone who organizes and directs a start-up business, assuming the risk in the hopes of making a profit.

FICA (Federal Insurance Contributions Act) - Social Security and Medicare taxes on wages (paid by both the employer and the employee).

Franchise - A business arrangement that gives you the right to sell a product or service in a particular area. The company selling the concept is the franchiser; you are the franchisee. The right to a large territory is called a master franchise.

Grants - Money from government sources or private foundations to start or run a business that matches the goals of the grant maker; grant money doesn't have to be repaid.

Home office deduction - The total of deductions from business use of a home office, including depreciation on the office or a portion of rent as well as the portion of utilities and insurance related to the home office.

Limited liability company -Type of business organization formed under state law that gives owners protection from personal liability but treats them as a partnership for tax purposes.

Limited partnership - Partnership in which one or more partners has limited personal liability and can't participate in the day-to-day operations of the business.

Low doc loans - Special loan programs with simple application processes (short for low documentation because there's not much paperwork).

Marketing - How people advertise, publicize, or otherwise inform each other of their product or service with the goal of exchanging products or services with each other.

Network marketing - Direct sales to consumers with distributors getting money from both direct sales and a percentage of the direct sales of other distributors they bring into the network. Also called multilevel marketing.

Networking - Word-of-mouth marketing in which contacts are made to try to drum up business.

Overhead - Cost of monthly expenses, including electricity, telephone, insurance, and salaries of employees.

Partnership - Two or more people working together in a business with the intention of making a profit.

Personal service corporation - Corporation subject to special tax rules; corporation engaged in the fields of health, law, accounting, engineering, architecture, actuarial science, performing arts, or consulting and that meets certain ownership and service tests.

Rider - Additional clause to an existing contract or insurance policy to cover a special item or event (usually an upgrade to a policy); sometimes referred to as an endorsement.

S corporation - Corporation organized under state law that elects to have business income taxed to its shareholders (also called a Subchapter S corporation).

SBA (Small Business Administration) - Federal agency that sponsors loan programs and other assistance to small businesses.

SBICs (Small Business Investment Companies) - These are privately managed firms licensed by the SBA to make loans to small businesses.

Self-employment tax (SE tax) - A Social Security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.

Sole proprietorship - Unincorporated business owned by one person.

Variance - A change or alteration of a zoning rule granted specifically for one person.

Venture capitalists - People or companies that invest in businesses (often technology related) with the expectation of realizing big profits in the future.