



business

are at risk. Alternatively, if you had established or structured your company as an LLC (Limited Liability Corporation), a C Corporation (a corporation with 35 or fewer shareholders), or an S Corporation (a corporation with between 1 and 100 shareholders), your assets would be protected under a corporate umbrella, thus protecting you from job related mishaps.

3. NOT ESTABLISHING A BUSINESS PLAN BEFORE GETTING STARTED (WHICH USUALLY RESULTS IN NOT HAVING ENOUGH CAPITAL TO KEEP YOUR BUSINESS AFLOAT):

"Typically businesses fail because they don't create a business plan prior to starting the business," says Vierra. You might have enough money to open your doors, but don't assume that the customers will come running in. You need about 6 to 9 months to get your business off the ground (i.e. before you can break even or make a profit). Vierra says, "If and when you run out of money, the bank will be reluctant to give you an additional loan if you haven't proved to be profitable. If you don't have enough cash flow for 6 to 9 months after starting your business, you may have to file bankruptcy." Avoid the threat of bankruptcy by planning all your start-up costs while also planning to have enough cash flow to last 12 to 18 months.

4. PAYING YOUR EMPLOYEES UNDER THE TABLE:

Under the table payments means that you're not paying taxes on your employees (and they're not paying taxes to the government). Also, you're neglecting Social Security payments, income tax, and workers' compensation payments (which could haunt you if something goes wrong). In the short term you are saving a few dollars (and they're making a bit more), but if your worker gets hurt on the job and seeks medical repayment via workers' compensation, or gets fired and applies for unemployment, you're in big trouble. "If an employee gets hurt, he can go to the state and apply for workers'

compensation rights," says Vierra. "Because you have not been paying for workers' compensation insurance, you become obligated personally to provide for that medical care." Having to pay out of pocket for medical bills isn't the only fallback. Vierra says, "What happens if you're unhappy with and decide to fire an employee and you've failed to pay unemployment benefits? What if your former employee goes to the unemployment office and petitions for unemployment payments? Now the state is alerted that you haven't been paying your appropriate share." Just avoid it by filing the W-4 form with the appropriate government agencies. Paying taxes now can save future heartache.

5. ENTERING INTO A PARTNERSHIP WITHOUT MAKING A PLAN IN CASE THINGS DON'T GO AS ENVISIONED:

Sure you and your best friend have known each other for years. But can you trust them? "Partnerships are very risky," says Vierra, "Partners have an equal responsibility under the law. If your partner flakes and, for example, withdraws all the businesses' money, you're stuck with all those bills." The case is the same if your partner commits a crime or goes to jail — you'll have to deal with all the consequences. If you're planning a partnership, make sure you and your partner detail, well in advance, what will happen if plans fail. ❧

some tips

- Protect your social security number and avoid fraud by getting an employee identification number from the IRS. If you use your social security number instead of an employee identification number, you risk having your social security number openly available to hosts of people.
- Be sure to report all your revenues so that you can avoid charges of tax evasion.