

Business Law Basics: What and Who You Need to Know

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Goals for this Workshop

- **Take-Home Point – How Legal Knowledge is Key to the Success of a Small Business**
- Present an overview of key legal topics that small business owners may not be as familiar with as they should be
- Understand how establishing a relationship with professionals in these fields is often an essential part of small business owners' business.



Ice Breaker Exercise

WHO'S WHO IN THE ROOM? –
30 SECOND ELEVATOR PITCH

Legal Focus



Protecting Your
Assets



Who Can Help You
Protect Your Assets?

I. Protecting Your Assets



Legal Protection of Your Assets

- Business ownership and legal form go hand-in-hand
- Those doing business with you will want to know the legal structure of your business
- This makes election of your legal form a serious decision
- Business name and legal form registration are required for bank accounts and contracts



Common Legal Structures

Legal form is how your business is viewed from a legal and tax perspective.

Common legal forms are:

- Sole proprietorship
- Partnership
- Limited Liability Company
- Corporation
- Can elect to be taxed as an “S” Corporation

Sole Proprietorship

- has one owner who pays personal income tax on profits and is personally responsible for any liabilities
- Simplest form



Sole Proprietorship

- Simple to establish – no forms required
- May need to register name (DBA) or get permits
- Tax treatment is same as if you were employed
- Pay both employer and employee portion of payroll taxes
- Risk of liability is the downside – personal assets may be at risk

Partnership

- two or more owners share profits or losses
- don't incur taxes on profits before they are distributed to partners (unlike corporations)



Partnership

- Simple to establish – same as sole proprietorship
- May need to register name or get permits
- Tax treatment is same as sole proprietor – each partner pays according to his income
- Risk of liability is the downside – personal assets of both partners may be subject to legal claims
- Liability is joint and severable
- Partnership should be in writing

Legal Form

3 Important Questions

You may want to consider a Corporation or Limited Liability Company if your answer is “yes” to any of these three questions:

- Want the most protection for your personal assets?
- Is there or may there be more than one owner?
- Is there a possibility of selling the business?



Limited Liability Company (LLC)

- Establish by completing a state form
- Costs approximately \$300 to file with state
- Tax treatment is good – like a sole proprietor
- Single member LLC not required to file a separate tax return
- File Schedule C with 1040
- If more than one owner – treated like a partnership
- Must file return for LLC
- As a legal entity – protects the owner's assets
- Multiple owners should have written operating agreement

Corporation

- is a legal entity distinct from its owners, limiting the owners' personal liability
- corporations provide a readily transferable means of ownership through stock
- the corporation itself is taxed on its profits, which are then taxed again when stockholders receive income in the form of dividends
 - Tax disadvantage

Corporation

- Establish by filing “Articles of Incorporation”
- Costs approximately \$300 to file with state
- Ownership represented by shares of stock
- As a legal entity – protects the owner’s assets
- Requires by-laws, board of directors, and officers
 - positions can be held by one person



“C” vs. “S” Corporation

S-Corp

- Once corporation is formed, you may choose to be taxed so that income is taxed to shareholders (business itself is not taxed)
- File a form with IRS electing to be taxed as “S” corporation
- Owners get tax treatment like a sole proprietorship – income reported on owner’s personal tax return
- Still maintains the liability protection of the corporation

C-Corp

- If no “S” Corporation election, corporation pays income tax
- Double taxation since dividends are taxed when distributed to shareholders (individuals)
- Still maintains the liability protection of the corporation

Business and Website Name

- If the business operates under a name other than the legal name of the owner, it should be registered
- It is beneficial to a small business if the name describes the nature of the business
- Securing a matching website name is sometimes difficult – reserve both at the same time



Contracts and Warranties

- If your business requires written contracts, verify the legal implications and content with an attorney
- Warranties are a form of legal contract that you must honor – make sure they protect you



Zoning and Covenants

- Check zoning regulations to ensure your business can operate at the location you select
- Check neighborhood covenants for any special rules regarding business operations – even home-based businesses
- Particularly important to verify before leasing buying property



Licensing and Permits

- Important to get required licenses and/or permits
- County clerk can provide requirements for most small businesses
- State agencies may have certification requirements for certain professions
- These requirements will generally apply regardless of the legal form of the business



Insurance

- Business insurance is a way to protect business and personal assets
- Protection may be required for liability - as well as for fire, wind, theft, etc.
- Get estimates of requirements, coverage, and cost from several companies



Exit Strategy

- An “exit strategy” describes the condition under which an owner may leave a business
- Applies to multiple owner businesses
- Describes what rights the party leaving the business has and what rights the remaining owners have
- Should be negotiated and documented when business is formed



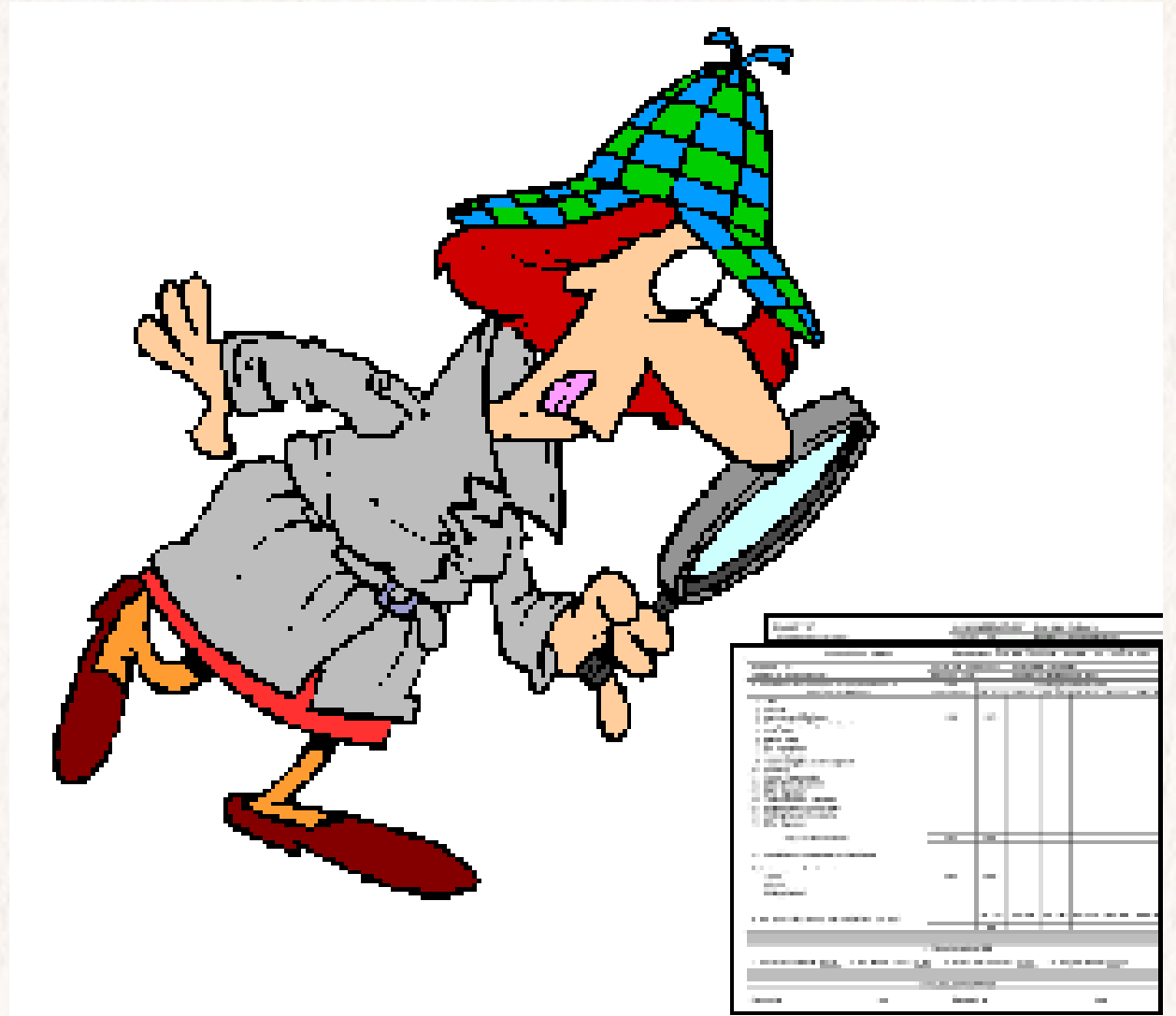
Staffing Principles



There are three basic principles in staffing:

- Set standards – prepare job descriptions that identify skill sets and experience requirements
- Hire to standards – make standards known to new hires and do not compromise on performance
- Maintain standards – establish education/training requirements and provide mentoring
- Understand the legal difference between employees and independent contractors
- ***Avoid lawsuits when employees need to be terminated or reprimanded

II. Who Can Help You Protect Your Assets?



Who Can Help You Protect Your Assets?

Professionals You
Need to Know

- Attorneys
 - Business/Corporate Lawyer
 - Contracts Lawyers
 - Tax Lawyer
 - Intellectual Property Lawyer
 - Labor and Employment Lawyer
 - Property Lawyer
- Accountant/ CPA
- Bookkeeper



Special Thanks

- Dick Hall with SCORE
- <http://www.bizplansoftwarefree.org/>

Who Can Help You Protect Your Assets?

Some FREE Organizations:

- PeopleFund – Mentors, Workshops, Tailored Curricula
- SCORE – Mentors, Workshops (Free or Cheap), Literature
- University of Houston SURE Program – Free entrepreneurship class - Saturdays, Mentors
- Executive Service Corps of Houston – Free nonprofit startup clinic – Tuesdays, Programs, Mentors
- Chambers of Commerce – Workshops, Networking Events, Business Assistance – Free and Paid

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CLOSING EXERCISE

NETWORKING – COLLECT THE BUSINESS CARD OF
AT LEAST ONE PERSON WHOM YOU IDENTIFIED IN
THE ICE BREAKER EXERCISE