



# Initial Start-Up Considerations

## *Doing Business in Washington, DC*

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# Chapter 1: Initial Start-Up Considerations

## Write a Business Plan

1. How will your business make money?
2. How will you finance the business?

## Know Your Business

1. What are you selling?
2. Who are your customers?
3. Who is your competition?

## Find a Location

1. Where are your customers?
2. Where will your business operate?
3. How much space will you need?
4. What are the zoning requirements?

## Make Your Business Legal

1. What business structure will your company have?
2. What kind of licenses do you need?
3. What tax forms do you need?

## Get Financing

1. Will you need a loan?
2. Do you qualify for a loan?
3. Sources of financing?
4. Financial incentives available?

# Chapter 1: Initial Start-Up Considerations

## Ownership Structure

Sole Proprietorship  
General Partnership  
Limited Partnership  
Limited Liability Partnership (LLP)  
C (General) Corporation  
Limited Liability Company (LLC)  
S Corporation  
Nonprofit

Company Type	Tax Requirements
General Partnership	<ul style="list-style-type: none"><li>Profits are personally taxed to partners based on percentage of ownership</li><li>Can claim on personal taxes</li></ul>
Limited Partnership	<ul style="list-style-type: none"><li>Profits are personally taxed to partners based on percentage of ownership</li><li>Can claim on personal taxes</li></ul>
Limited Liability Partnership S Corporation	<ul style="list-style-type: none"><li>Special tax consequences</li><li>Profits are personally taxed to parts based on percentage of ownership</li><li>Shareholders taxed on dividends</li></ul>
C Corporation	<ul style="list-style-type: none"><li>Corporate earnings are subject to “double-taxation” when corporation are taxed and shareholders receive dividends</li></ul>
Nonprofit	<ul style="list-style-type: none"><li>May seek to be exempt from taxation, which requires the approval of the IRS under specific guidelines</li></ul>
Limited Liability Corporation	<ul style="list-style-type: none"><li>Corporation is taxed on earnings, owners only taxed on income taken out of business</li><li>Some additional tax benefits</li></ul>
Sole Proprietorship	<ul style="list-style-type: none"><li>Profits are personally taxed to owner</li><li>Offers few tax benefits</li></ul>

# Chapter 2: Business Registration & Licensing

*If you would like to operate in the District of Columbia as a for-profit, nonprofit, Limited Liability Company or partnership (limited partnership or limited liability partnership); you must register with the Corporations Division of the Department of Consumer and Regulatory Affairs.*

## Domestic Company

**Articles of incorporation** - *For-profit/Non-profit corporation*

**Articles of Organization** – *LLP*

**Statement of qualification** – *Partnership*

## Foreign Company

**A Certificate of Authority** - *For-profit or Nonprofit corporations*

**Certificate of Registration** - *Limited Liability Company*

# Chapter 2: Business Registration & Licensing

The following requirements apply to all business license applicants (*listed in step format*):

**Step 1: Federal Employer Identification Number (FEIN)**

**Step 2: Certificate of Occupancy (CRA-5)**

**Step 3: DC Business Tax Identification Number**

**Step 4: Certificate of Registration**

**Step 5: Clean Hands Certificate**

**Step 6: Basic Business License**

**Step 7: Business Trade Name**

# Chapter 3: Business Financing

In 2005, the US Chamber of Commerce conducted a report entitled: “Access to Capital: What Funding Sources Work for You?”

*It found that an overwhelming majority of small businesses were funded using their own personal savings as start-up capital.*

## **Sources of Start-Up Funding:**

<b>Personal Savings</b>	<b>81%</b>
<b>Bank Loan</b>	<b>18%</b>
<b>Credit Card</b>	<b>15%</b>
<b>Friend/Family</b>	<b>15%</b>
<b>Home Equity Loan</b>	<b>8%</b>
<b>Revolving Credit</b>	<b>3%</b>
<b>Venture Capital</b>	<b>2%</b>

\*US Chamber of Commerce: “Access to Capital: What Funding Sources Work for You?”

# Chapter 3: Business Financing

## 5 C's of Credit

**Capital:** How much of your own funds are invested in this business

**Capacity:** Your ability to repay the loan (this is where your credit report will be crucial)

**Collateral:** Assets, such as real estate, equipment or inventory that can be liquidated to repay the loan if you default

**Conditions:** How you plan to use the loan

**Character:** The general impression of trustworthiness you make on the prospective lender or investor

# Chapter 3: Business Financing

## Applying for A Loan

1. A description of your business: products or services, market, competitive advantages
2. A biography with a summary of qualifications
3. A budget detailing how the funds will be used
4. A statement of your equity injection (your personal contribution) – *20% of the total budget*
5. Business financial statements and tax returns for the last three years, if applicable
6. Cash flow projections for at least the next 12 months
7. Personal financial statements and three years of tax returns for each owner of the business
8. A description of the collateral being offered, in addition to business assets, which often include personal assets such as marketable securities or real estate

# Chapter 3: Business Financing

## Short-Term Loans (< 1 year)

Typically used to finance such things as seasonal build-up of inventory or accounts receivable.

**Line of Credit**  
**Time Loan**

## Long-Term Loans (> 1 year)

Typically used to finance permanent assets like your core level of inventory, accounts receivable, the expansion of a business, machinery and equipment or construction of a new building.

**Term Loan**  
**Revolving Line of Credit**  
**Accounts Receivable**  
**Commercial and Industrial Mortgages**  
**Personal Loans**

# Chapter 3: Business Financing

## **Micro-loans - \$500- \$35,000**

Nontraditional lenders with less stringent financial guidelines than banks usually offer them. They can be used for working capital, machinery, inventory and leasehold improvements.

## **SBA Loans**

### ***7(a) Program***

To qualify for the guaranty, a small business must meet the 7(a) criteria, and the lender must certify that it could not provide funding without the guaranty.

### **504 Loan Program**

Provides long-term, fixed-rate, subordinate mortgage financing for the acquisition and/or renovation of capital assets (includes land, buildings, and equipment).

# Chapter 3: Business Financing

## Equity Financing

**CAPCO:** Provides funding to District of Columbia based businesses ; 25% of the company's employees must be District residents; 75% of the company's employees must work in the District

**Venture Capital Firms:** Require some management control (in addition to repayment) in exchange for their financial investment

# Chapter 4: Business Taxes

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If you engage in or carry on a trade or business in the District and/or receive income from sources within the District you are required to pay some form of business tax.

## **District of Columbia Taxes**

**Corporate Franchise Tax**

**Unincorporated Business Franchise Tax**

**Sales Tax and Use Tax**

**Personal Property Tax**

**Gross Receipts Tax**

**Taxes on Special Events**

**Unemployment Taxes**

# Chapter 5: Financial Incentives

*The District of Columbia offers a number of financial incentives and tax abatements to businesses located within federal Enterprise Zones (EZ).*

## **Primary Enterprise Zones**

Defined as 20% of higher poverty rates based on 1990 census dates

*Primary Enterprise Zones are eligible for all EZ incentives*

## **Secondary Enterprise Zones**

Defined as between 10–20% poverty based on census tract.

*Only eligible for the federal capital gains tax exemption and personal property tax exemption*

*Enterprise Zones are based on US Census tract reporting from 1990*

# Chapter 5: Financial Incentives

To be a qualified Enterprise Zone business, your business will need to meet the following criteria:

- 1. Operates as a corporation, nonprofit, partnership, LLC or sole proprietorship**
- 2. Only trade or business is the active conduct of a “qualified business”** *(as outlined in IRS Publication 954)*
- 3. At least 50% of business income is from the active conduct of a trade or business within the EZ**
- 4. A substantial portion of the tangible property and non-tangible property is used in the active conduct of a qualified business**
- 5. A substantial portion of the services performed for the business by its employees is performed in the EZ**

# Chapter 5: Financial Incentives

## Incentives Available to EZ Businesses

- 1. Tax-exempt bond financing**
- 2. Federal Capital Gains Tax**
- 3. Exemption DC Employment Tax Credits** – *up to \$3,000 per new employee*
- 4. Expensing Allowance - \$20,000 if business equipment and depreciable property was purchased**
- 5. NET2000 – Financial and tax incentives provided to technology firms**

# Chapter 6: Business Registration & Licensing

Washington, DC has specific laws concerning the hiring, firing and treatment of employees.

## **Important Labor Laws/Policies**

**Sick & Safe Leave Act 2008**

**Alien Certification**

**Wage and Hour** – \$7.55 hour/ \$2.77 for restaurants

**Unemployment Compensation**

**Workers' Compensation** *(Private Sector)*

**Occupational Safety and Health** *(Private Sector)*

**Child Labor Law**

**Human Rights Laws** –*businesses with 15+ employees*

Equal Pay Act

Americans w/Disabilities Act

Age Discrimination Employment Act

Sexual Harassment

# Chapter 7: Business Insurance

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An important aspect of planning any business is dealing with potential exposure to loss. Managing risk properly can mean the difference between failure and success. You will need different coverage to satisfy legal requirements in the District of Columbia, but you will also want other coverage to protect your interests.

*Make sure your business is adequately safeguarded with the right kind of business insurance.*

# Chapter 7: Business Insurance

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## **Workers' Compensation Insurance**

### **Group Health & Disability**

Short-term disability

Long-term disability

### **Group Life & Key Person Life**

Group Life Insurance

Key Person Life Insurance

## **Commercial Auto Insurance**

# Chapter 7: Business Insurance

## **Business Property & Liability**

- Business Interruption/Continuation Insurance
- Liability Insurance
- Compensatory damages
- General damages- *pain and suffering/mental anguish*
- Punitive damages

## **Home-Based Business Insurance**

- Workers' compensation insurance
- Property and liability insurance
- Commercial auto insurance
- Disability insurance
- Life insurance

## **Bid or Tender Bonds**

## **Performance Bonds**

# Chapter 9: Starting a Nonprofit Organization

## Steps for Establishing a Nonprofit Organization

- 1. Develop a Strategic Vision/Mission Statement and Plan**
- 2. Determine the Organization Type**
  1. 501(c)(3) Charitable or Religious Organizations
  2. 501(c)(4) Social Welfare Organizations
  3. 501(c)(5) Labor and Agricultural Organizations
  4. 501(c)(6) Business Leagues
  5. 501(c)(7) Social Clubs
  6. 501(c)(8) or (10) Fraternal Societies
  7. 501(c)(19) or (23) Veteran's Organizations
  8. 501(c)(4) or (9) Employee Associations
- 3. Establish a Board of Directors**
- 4. Register Your Organization**
- 5. Develop the Bylaws**
- 6. Obtain Sponsorship & Grant Support**

# Chapter 10: Doing Business w/ Government

## **Federal Certification Programs** *(more than \$1B in opportunities)*

### **HUBZone Program**

### **8(a) Business Development Program**

### **Disadvantaged Business (SDB) Certification Program** – *for federal procurement*

## **DC Government Contracting** *(more than \$300m in opportunities)*

### **Certified Business Enterprise (CBE) Certification**

Local Business Enterprise (LBE) 2 Points— *2% reduction*

Small Business Enterprise (SBE) 3 points— *3% discount*

Disadvantaged Business Enterprise (DBE) 2 Points— *2% reduction*

Resident Owner Business (ROB) 5 Points— *5% reduction*

Longtime Resident Business (LRB) 10 Points— *10% reduction*

Development Enterprise Zone 2 points— *2% reduction*

# About Initial Start-Up Considerations

*Initial Start-Up Considerations* programming is an initiative of the BusinessPremier program of the Washington, DC Economic Partnership. The goal of this initiative is to actively engage targeted communities through entrepreneurship training and tutorials on the use of the 2008 Doing Business in DC Guide Book (published in English, Spanish, Korean, Chinese and Vietnamese). The BusinessPremier program has partnered with various CDC, EDCs, main streets and Ward Business Councils to assist us in effectively reaching our targeted audience. *Initial Start-Up Considerations* Workshops will be held at various locations throughout the month of February and March.

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