

# Alabama's Answers

*A Guide  
To Doing  
Business  
in Alabama*



**SMALL BUSINESS GUIDE**  
**TO**  
**DOING BUSINESS IN ALABAMA**

The Book of Information for the Alabama Business Entrepreneur

September 2014



ALABAMA SMALL BUSINESS DEVELOPMENT CENTER NETWORK

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## INTRODUCTION

Welcome to *Alabama Answers*, a partnership publication of the Alabama Department of Commerce - Office of Small Business Advocacy and the Alabama Small Business Development Center Network. The following is an introductory guide for starting a new business in the State of Alabama. While no one publication can answer every question for every kind of proposed business, this publication can serve as a useful foundation resource for the practical know-how and technical information needed for a successful business start-up. The Alabama Small Business Development Center Network, along with a number of state agencies, is available to provide a spectrum of services to help Alabama entrepreneurs establish and grow a successful small business. The services of the Alabama SBDC Network are free for small businesses. SBDC technical assistance and counseling services can make the difference in whether a business venture is successful or not.

This guide is organized into five major sections:

- I. How to Start a Business in Alabama
- II. Start-Up Guidelines
- III. Guide To Business Taxes
- IV. Small Business Assistance
- V. Small Business Financing

This book provides a base for the entrepreneur to build on. However, before engaging in any business venture, it is advisable to seek advice from a lawyer, an accountant and other business professionals. They can advise you on the many technical aspects of starting and operating a business particular to your industry and specific plan.

We encourage you to research your proposed venture thoroughly and to seek assistance from every available resource.

We wish you the best of luck in your new venture.

Sincerely,

William C. Cummins  
Executive State Director  
Alabama SBDC Network

Eddie F. Postell  
Manager, Office of Small Business Advocacy  
Alabama Department of Commerce

## **I. HOW TO START A BUSINESS IN ALABAMA**

- A. Business Start-up Checklist
- B. From Idea to Personal Commitment
- C. Technical and Managerial Experience
- D. Writing A Business Plan
- E. Choosing A Legal Structure
- F. Sample Documents
  - 1. The Balance Sheet
  - 2. The Income Statement
  - 3. The Cash Flow Statement
- G. Ten Steps to Business Success
- H. Feasibility Checklist

### **A. BUSINESS START-UP CHECKLIST**

There are a number of steps which should be taken before anyone starts a small business in Alabama. Detailed descriptions of all the areas involved in planning a business venture are discussed in the following sections of this book. The following checklist is designed to be used as a general reference guide by the business owner to adequately plan and prepare for entry into the world of entrepreneurship.

#### *START-UP CHECKLIST*

- Prepare a written business plan complete with financial statements
- Decide whether you wish to operate as a sole proprietorship, partnership or corporation
- Establish a source of adequate and reliable financing
- Check on zoning ordinances
- Select a suitable location
- Retain an attorney and CPA, if appropriate

- \_\_\_ Acquire necessary licenses and permits
- \_\_\_ Get tax ID number and forms; follow other tax requirements
- \_\_\_ Choose a record keeping system and method of inventory control
- \_\_\_ Open bank accounts
- \_\_\_ Arrange for utilities, telephone and other services
- \_\_\_ See insurance agent for full range of coverage

## **B. FROM IDEA TO PERSONAL COMMITMENT**

The main message of this manual is to stress the importance of prior planning and thinking through your idea. Prior planning encourages systematic thinking by management and leads to the development of proper controls. The result is a better overall preparedness and a more vivid sense of the interacting responsibilities.

The first step in the process is generating your idea. This is only the very first step. Many things remain to be done before you can expect to realize and make money from the idea. At the minimum level your idea will need to pass several tests to determine whether or not it is an original idea, whether the idea can be produced and distributed profitably, and whether your idea can be protected. This seems simple enough until you examine the underlying questions that must be resolved. For example, to determine the commercial merit of an idea the following areas should be considered:

Legality	Distribution
Safety	Perceived Functions
Environmental Impact	Existing Competition
Societal Impact	Potential Sales
Potential Market	Development Status
Product Life Cycle	Investment Costs
Usage Learning	Trend of Demand
Product Visibility	Product Line Potential
Service	Need
Durability	Promotion
New Competition	Appearance
Functional Feasibility	Price
Production Feasibility	Protection
Stability of Demand	Pay-Back Period
Profitability	Consumer/User Compatibility
Marketing Research	Product Interdependence
Research and Development	

It will take a great deal of personal commitment to turn your idea into reality. Small business owners must be willing to work exceptionally long hours and often forego financial rewards in the early stages of their operation. All too many businesses fail, but proper planning and dedication will certainly increase your chances for a successful venture.

### **C. TECHNICAL & MANAGERIAL EXPERIENCE**

One of the most common mistakes in starting a business is trying to do so without the necessary training and experience. Before you start a business, you should ask yourself whether you actually have the background, experience and training that is required. For example, a retailer would need expertise in management, sales and buying. The management experience would need to include personnel, record keeping and marketing, as well as other skills.

If you do not already have this experience, how do you get it? Generally, it is best to work for a time in a company similar to your proposed business. This gives you a closer look at what that type of business entails without risking your investment during the learning period. Another suggestion for gaining expertise is to take courses at your local college or university. Most area schools offer both credit and continuing education courses. Various seminars and workshops are also offered throughout the year.

There are many publications available that offer help and insight for many of the day-to-day problems a small business owner faces. The Small Business Administration issues a wide range of management and technical publications to assist the small business owner. One of the most useful is the *Alabama Small Business Resource Guide*, which is published annually and is available from the SBA Alabama District Office, the SBA website [www.sba.gov](http://www.sba.gov) and from SBA resource partners in Alabama, including the Alabama SBDC Network, Women's Business Centers, and SCORE.

In addition, the Alabama Procurement Program (PTAC) and the Alabama SBDC Network publish the *Guide to Government Contracting for Alabama Small Businesses* to help small businesses in Alabama win government contracts. This guide will help you understand the world of government contracting, what is required to pursue this fascinating business opportunity, and if selling goods and services to the government is a viable option to grow your small business. The publication is free to download at the Procurement website <http://al-ptac.org/guide/>.

The Alabama Department of Revenue (ADOR) produces *Starting A New Business – An Educational Brochure For Alabama Taxpayers*. ADOR administers over 50 different state and local taxes that affect business and individual taxpayers. The following is a listing of the business-related taxes that are administered by ADOR. This overview is intended to be an introduction to the tax requirements for businesses. The publication can be viewed at <http://www.revenue.alabama.gov/taxpayerassist/StartingANewBusiness.pdf>

## D. WRITING A BUSINESS PLAN

### *Introduction*

One of the most important early steps to take in starting or expanding a business is to write a business plan. There are three major reasons why you should take the time to create a written business plan.

The **first** reason is that the process of putting a business plan together, including the thought you put in before beginning to write the plan, forces you to take an objective, critical and unemotional look at your business project in its entirety.

A **second** advantage that comes with having a written business plan is that the finished product, your business plan, is an operating tool which will help you manage your business and provides a means to measure your success.

**Third**, a properly prepared business plan also provides the information that must be presented to a bank or other investors before a credit decision is made. Since many businesses only start or expand through borrowed monies, the presentation of reliable and complete information in a business plan is essential.

### *What A Bank Looks For In A Business Plan*

The Business Plan is an excellent tool for bank presentations when financing is needed. A good business plan tells the banker that the applicant has put a great deal of thought and effort into this decision. A well-presented business plan will let the banker know that he is dealing with a serious and well informed prospect, instilling faith in you as an entrepreneur.

If a business plan is to be submitted to a bank, it is important to realize how a banker analyzes a business plan and what questions a banker will ask during this analysis. A banker's job is to assess the degree of risk in each proposed loan and to be satisfied that the loan can be repaid by the borrower while still allowing the businesses to operate profitably. A banker does this by analyzing a number of things:

- The Nature of the Business
- The Purpose of the Loan
- The Amount of the Loan
- The Ability to Repay the Loan
- The Character and Management Skills of the Business Owner

To convince a banker or investor of the merits of a loan request, a borrower must present complete and well organized information which addresses these and other concerns. It is important to remember that the proper packaging of a loan proposal can be an important step in getting it approved.

## *Suggested Business Plan Outline*

- I. Cover Letter
  - A. Name of Business
  - B. Name of Principals
  - C. Address of Business
  - D. Telephone Number of Business
- II. Statement of Purpose
  - A. Brief Statement of the Business Plan Objectives
- III. The Business
  - A. Description of the Business
  - B. The Market
  - C. Competition
  - D. Location of the Business
  - E. Management
  - F. Personnel
  - G. Application and Expected Effect of Loan or Investment
  - H. Summary
- IV. Financial Data
  - A. Sources and Applications of Funding
  - B. Capital Equipment List
  - C. Balance Sheet
  - D. Breakeven Analysis
  - E. Pro-Forma Income Projections (Profit & Loss Statements)
    - Three-Year Summary
    - Detail by Month, First Year
    - Detail by Quarter, Second and Third Year
    - Notes of Explanation
  - F. Pro-Forma Cash Flow
    - Three Year Summary
    - Detail by Month, First Year,
    - Detail by Quarter, Second and Third Year
    - Notes of Explanation
  - G. For an Existing Business
    - Budget Deviation Analysis
    - Historical Financial Reports
    - Balance Sheets for Past Three Years
    - Tax Returns
- V. Supporting Documents
  - A. Personal Resumes and Financial Statements
  - B. Job Descriptions
  - C. Credit Reports
  - D. Letters of Reference
  - E. Letters of Intent
  - F. Copies of Leases, Contracts and Other Relevant Legal Documents

## **E. CHOOSING A LEGAL STRUCTURE**

Once you have decided to start a business, you must decide what type of business entity to use. There are many legal and tax considerations which must be considered in order to make a sound decision. These legal considerations can become very involved and it is advised that you consult an attorney to help you determine the appropriate structure.

There are four principle forms of business structure: the Sole Proprietorship, the Partnership, the Corporation, and the Limited Liability Company (LLC). The decision should be based on your specific circumstances, goals, and needs. These structures, along with their advantages and disadvantages, are listed below:

### ***The Sole Proprietorship***

The sole proprietorship is usually defined as a business which is owned and operated by one person. To establish a sole proprietorship, you need only obtain whatever licenses you need and begin operation. For tax purposes, the sole proprietorship is a disregarded entity, meaning the IRS treats the income from the business as the personal income of the sole proprietor.

#### Advantages

- Ease of formation
- Sole ownership of profits
- One owner has control and decision-making power
- Flexibility in day-to-day management
- Relative freedom from government intervention
- A disregarded entity for tax purposes

#### Disadvantages

- Unlimited liability - this extends to all of the proprietor's assets including the home and car, but may be lessened by proper insurance coverage
- Unstable business life - the business may be terminated upon the death of the owner
- Less available capital
- Difficult to obtain long-term financing
- Relatively limited viewpoint and experience

### ***The Partnership***

The Uniform Partnership Act, adopted by many states, defines a partnership as “an association of two or more persons to carry on as co-owners of a business for profit.” Though not specifically required by the Act, written Articles of Partnership are customarily executed. These articles outline the contribution by the partners into the business (whether financial, material or managerial) and generally delineate the roles of the partners in the business relationship.

There are two types of Partnerships, a General Partnership, and a Limited Liability Partnership (LLP). The main factor that distinguishes the two types of entities is the liability of each of the

partners. In a General Partnership, all partners are equally and personally liable for all of the debts, obligations and liabilities accrued by the General Partnership, including debts, obligations and liabilities accrued by the other partners. In an LLP, there is a general partner who manages the entity, and limited partners who are passive investors. The general partner is the only one who has personal liability for the limited partnership.

Some of the characteristics that distinguish a partnership from other forms of business organizations are the limited life of a partnership, unlimited liability of at least one of the partners, co-ownership of the assets, sharing of managerial duties and a sharing of the profits. In addition, partnerships enjoy pass-through taxation. Pass-through taxation means the partnership itself does not pay income taxes on profits. Instead, the partners of the partnership pay personal income taxes on the profits allocated to them.

### Advantages

- Ease of formation
- Direct rewards
- Growth and performance facilitated
- Flexibility in decision making
- Relative freedom from government control and special taxation
- Pass-through taxation

### Disadvantages

- Unlimited liability of at least one partner
- Unstable life - elimination of either partner constitutes automatic dissolution of the partnership
- Relative difficulty in obtaining large sums of capital
- Firm bound by the acts of just one partner as agent
- Difficulty of disposing of partnership interest

### *The Corporation*

The corporation is by far the most complex of the business structures. A corporation is a distinct legal entity. That is, it is separate from the individuals who own it.

A corporation usually is formed by the authority of a state government, however in Alabama a corporation is formed by authority of a Probate Judge. Corporations which do business in more than one state must comply with federal laws regarding interstate commerce and with the state laws, which may vary considerably.

The procedure ordinarily required to form a corporation is that first a subscription for capital stock must be taken and a tentative organization created. Then, approval must be obtained from the Judge of Probate in the county in which the corporation's registered agent and office are located, or by the Secretary of State in the state in which the corporation is to be formed, if outside Alabama. This approval is in the form of a charter for the corporation, stating the limitations of the particular enterprise.

There are two types of Corporations, the C Corporation and the S Corporation:

*The C Corporation:*

Advantages

- Stockholders liability limited to a fixed amount of investment
- An unlimited number of shareholders
- Ownership is readily transferable
- Separate legal existence
- Stability and relative permanence of existence
- Relative ease of securing capital
- Delegated authority
- The ability to draw on the expertise and skills of many
- Multiple classes of stock may be issued

Disadvantages

- Activities are limited by the charter and various laws
- Minority stockholders may be exploited
- Extensive government regulations and required reports
- Less financial incentives for the manager
- Double taxation - income tax on corporate net income (profit) and also on salaries and dividends

*The S Corporation:*

The S Corporation is a corporation afforded special tax treatment under Subchapter S of the Internal Revenue Code. For liability purposes, S Corporations retain the normal features of a C Corporation, including limited liability, but for federal tax purposes they are treated much like a partnership.

The S Corporation is absolved from payment of taxes; hence the stockholders report corporate income, loss, deductions and credits on their individual tax returns. In most all other aspects, the S Corporation operates in compliance with state and federal laws relating to corporations, just as a regular corporation.

Advantages

- Limited liability of stockholders
- Pass-through taxation similar to partnership
- Ownership is readily transferable
- Separate legal existence

## Disadvantages

- Activities are limited by the charter and various laws
- Extensive government regulations and required reports
- No more than 100 shareholders
- S Corporation cannot own more than 80% of any other corporation
- Stockholders must be individuals, not entities
- Stockholders must be resident citizens
- Only one class of stock may be issued
- The law prohibits S incorporation for the sole reason of obtaining limited liability status

## *Limited Liability Company (LLC)*

The Alabama LLC is a relatively new type of hybrid entity that, if properly structured, provides the limited liability features of a corporation and the beneficial tax efficiencies of a Partnership. An LLC is treated like a Corporation for liability purposes, but for federal tax purposes it is treated as a Partnership. In other words, members of the LLC have no personal liability for the debts, obligations or judgments against the LLC. Only the assets of the LLC are available for satisfaction of a judgment. At the same time, the members of the LLC enjoy the pass-through tax benefits of a Partnership, wherein the LLC income is not taxed, but instead only the income of the members.

Alabama passed the first Alabama Limited Liability Company Act (93-724) in May of 1993. In March of 2014, Alabama adopted a new Limited Liability Company law named The Alabama Limited Liability Company Law of 2014 (Act No. 2014-144). The new act will apply to LLCs formed after January 1, 2015. For LLCs formed before January 1, 2015, the law will be applicable to them after January 1, 2017, unless the members elect to be subject to the new law.

One significant change present in the 2014 law includes the official recognition of Series LLCs. The series LLC allows the members to separate themselves and the assets of the LLC into different series in order to keep the assets safe for liability purposes. Each series can hold its own assets and have its own members, and each has protection from legal claims against other series within the company.

## Advantages

- Limited liability of members
- Pass-through taxation like a partnership
- Number of members unlimited
- Members may be individuals or entities
- Less formalities than a corporation

## Disadvantages

- Limited life-unlike corporations, which can live forever, an LLC is dissolved when a member dies or undergoes bankruptcy
- Formation More Complex than Sole Proprietorship or Partnership

As you can see, the LLC and the S corporation both have the advantages of limited liability and pass-through taxation. However, they do have several important differences. First, the members of an LLC enjoy more operational ease. Less forms are required for registering an LLC, and for filing taxes, and an LLC has lower start-up costs than an S corporation. In addition, an S corporation is required to hold scheduled director and shareholder meetings and record minutes from those meetings, while an LLC has no such requirement.

However, an S corporation has the advantage of a longer life. An LLC is dissolved when a member dies or suffers bankruptcy. In contrast, if an S corporation shareholder dies, leaves the company, or sells his or her shares, the S corporation can continue doing business with little disturbance. In addition, members of an LLC are subject to employment tax on the entire net income of the business, while only the wages of the S corporation shareholder who is an employee are subject to employment tax. The remaining income may be paid to the owner as a distribution which is taxed at a lower rate or not at all. However, there are numerous limitations and exceptions to this tax break, for which advice from a tax advisor would be advisable.

## **Procedure To Register Your New Business Entity**

Alabama law requires you to secure a “Name Registration” for your new business entity and register your new Corporation, LLC, or LLP with the Office of the Secretary of State. The following procedures apply:

1. The proposed name of the Corporation, LLC, or LLP must be reserved with the Business Entities Division of the Office of the Secretary of State. If the proposed name is available, a Certificate of Name Reservation will be issued. This requirement may be accomplished by completing a Name Reservation Request Form For Domestic Entities available at [www.sos.alabama.gov](http://www.sos.alabama.gov) under the Business Services tab or by filing for the name reservation online at the same web address. A fee is associated with this request.

For Corporations, Alabama law requires that the name contain the word “corporation” or “incorporated” or an abbreviation of one such word.

For LLCs, Alabama law requires your entity name to contain the words “Limited Liability Company” or “L.L.C” or “LLC.”

For LLPs, Alabama law requires your entity name to contain the words “Limited Liability Partnership” or “L.L.P” or “LLP.”

2. After receiving the Certificate of Name Reservation, you are ready to file your business entity documents with the Probate Judge in the county where your registered agent and/or office is located.

For an LLC, an original and two copies of your LLC's Certificate of Formation and Certificate of Name Reservation should be filed in the Probate Court in the county where the LLC's registered office is/will be located. The Probate Judge will collect the Secretary of State Filing fee and any other applicable fees.

For a LLP, an original and two copies of the LLP Registration and Certificate of Name Reservation should be filed in the Probate Court in the county where the LLC's registered office is/will be located. The Probate Judge will collect the Secretary of State Filing fee and any other applicable fees.

For a Corporation, an original and two copies of the Domestic Business Corporation Certificate of Formation and Certificate of Name Reservation should be filed in the Probate Court in the county where the corporation's registered office is/will be located. The Probate Judge will collect the Secretary of State Filing fee and any other applicable fees.

Before filing these documents, contact your local Probate Court to determine the fees necessary for your particular county and any requirements for processing payment. Additional forms can be obtained and answered by going to [www.sos.alabama.gov](http://www.sos.alabama.gov) and clicking on the Business Services tab and the Business Forms link in the Quick Links box. Many questions are answered by the information provided under various entity types under the Business Services page on the website. If you have questions that are not answered on the website contact:

Office of the Secretary of State  
Business Services Division  
P.O. Box 5616  
Montgomery, Alabama 36103-5616  
(334) 242-5324  
<http://www.sos.alabama.gov/BusinessServices/Default.aspx>

## F. SAMPLE DOCUMENTS

### THE BALANCE SHEET

The Balance Sheet is a measure of the solvency of the business and the degree of the owner's investment, which, in the last analysis, is the "cushion" that protects creditors. Illustrated below is a typical balance sheet format (applicable to any type of business).

**Name of Company**

Balance Sheet As Of \_\_\_\_\_

**CURRENT ASSETS:**

- |  |    |       |
|--|----|-------|
| <input type="checkbox"/> Cash on Hand and in Banks | \$ | _____ |
| <input type="checkbox"/> Accounts Receivable       |    | _____ |
| <input type="checkbox"/> Notes Receivable, Trade   |    | _____ |
| <input type="checkbox"/> Notes Receivable, Other   |    | _____ |
| <input type="checkbox"/> Inventory                 |    | _____ |
| <input type="checkbox"/> Marketable Securities     |    | _____ |
| <input type="checkbox"/> Other Current Assets      |    | _____ |
| <b>TOTAL CURRENT ASSETS:</b>                       |    | _____ |

**LONG-TERM ASSETS:**

- |   |       |
|---|-------|
| <input type="checkbox"/> Land, Land improvements, Buildings   | _____ |
| <input type="checkbox"/> Machinery & Equipment                | _____ |
| <input type="checkbox"/> Other Assets (attach list if needed) | _____ |
| <input type="checkbox"/> Deferred, Prepaid, Expenses          | _____ |
| <input type="checkbox"/> Intangible Assets                    | _____ |
| <b>TOTAL LONG-TERM ASSETS:</b>                                | _____ |
| <b>TOTAL ASSETS:</b>  | _____ |

**CURRENT LIABILITIES:**

- |  |       |
|--|-------|
| <input type="checkbox"/> Notes Payable, Banks                | _____ |
| <input type="checkbox"/> Notes Payable, Other                | _____ |
| <input type="checkbox"/> Accounts Payable, Current           | _____ |
| <input type="checkbox"/> Accounts Payable, Past Due          | _____ |
| <input type="checkbox"/> Accrued Federal, State Income Taxes | _____ |
| <input type="checkbox"/> Other Accrued Expenses              | _____ |
| <input type="checkbox"/> Current Portion Long-Term Debt      | _____ |
| <input type="checkbox"/> Current Portion Long-Term Lease     | _____ |
| <input type="checkbox"/> Other Current Liabilities           | _____ |
| <b>TOTAL CURRENT LIABILITIES:</b>                            | _____ |

**LONG-TERM LIABILITIES:**

- |  |       |
|--|-------|
| <input type="checkbox"/> Mortgage Debt due after 1 year  | _____ |
| <input type="checkbox"/> Equipment Debt due after 1 year | _____ |
| <input type="checkbox"/> Lease Agreement beyond 1 year   | _____ |
| <input type="checkbox"/> Other Long-Term Debt            | _____ |
| <b>TOTAL LONG-TERM LIABILITIES:</b>                      | _____ |

**NET WORTH:**

- |   |       |
|---|-------|
| <input type="checkbox"/> Capital Account (Corporate Only) | _____ |
| Preferred Stock   | _____ |
| Common Stock  | _____ |
| <input type="checkbox"/> Capital Surplus                  | _____ |
| <input type="checkbox"/> Retained Earnings                | _____ |
| <b>TOTAL NET WORTH:</b>                                   | _____ |
| <b>TOTAL LIABILITIES AND NET WORTH:</b>                   | _____ |

**NOTE:** In order to complete the Balance Sheet properly, Total Assets must equal Total Liability plus Net Worth.

## THE INCOME STATEMENT

The Income Statement (Profit and Loss) records all income and expenses of the business during a specified time period and is the accepted method of determining profits and losses. The Internal Revenue Service requires all businesses to submit this report at the end of each year.

### Profit and Loss Statement

From: \_\_\_\_\_ to \_\_\_\_\_

Sales or Gross Receipts (1)	_____
Less Cost of Goods Sold (2)	_____
Gross Profit	_____
Less Operating Expenses (3)	
<input type="checkbox"/> Rent	_____
<input type="checkbox"/> Depreciation	_____
<input type="checkbox"/> Repairs & Maintenance	_____
<input type="checkbox"/> Salaries & Wages	_____
<input type="checkbox"/> Payroll Taxes & Fringe Benefits	_____
<input type="checkbox"/> Taxes, Licenses & Fees	_____
<input type="checkbox"/> Insurance	_____
<input type="checkbox"/> Accounting, Legal and Professional Fees	_____
<input type="checkbox"/> Bad Debts	_____
<input type="checkbox"/> Telephone	_____
<input type="checkbox"/> Utilities	_____
<input type="checkbox"/> Supplies	_____
<input type="checkbox"/> Security	_____
<input type="checkbox"/> Auto and Truck	_____
<input type="checkbox"/> Advertising and Promotion	_____
<input type="checkbox"/> Interest	_____
<input type="checkbox"/> Miscellaneous	_____
Total Expenses	_____
Net Profit Before Taxes	_____
Federal Income Taxes (Corporation Only)	_____
Net Profit (or Loss) (4)	_____

(1) Sales or Gross Receipts - represents total amount of money that the business makes from the sale of its merchandise, less discounts and refunds.

(2) Cost of Goods Sold- the cost of the merchandise that the business sells. These costs differ with each type of business.

(3) Operating Expenses - all business costs other than the costs of the merchandise.

(4) Net Profit (loss) - sales less cost of goods sold less operating expenses less tax.

## THE CASH FLOW STATEMENT

The Cash Flow Statement is the most critical planning tool for a new or growing business. It shows how much cash will be needed, when it will be needed and where it will come from. It budgets monthly cash needs and shows the flow of cash into the business from sales and collection of receivables, as well as the flow of cash out of the business through payment of expenses and loans over a period of time. The banker uses this information to analyze possible shortfalls of cash and as a guide to borrowing needs. Your statement should show Cash Flow over the full twelve-month period. This Cash Flow Statement (reprinted from SBA Management Aid 1.001 the ABC's of Borrowing) represents a cash flow statement for a three-month period.

### Cash Budget

(For three months, ending March 31, 20 \_\_\_\_)

	<u>January</u>	<u>Actual</u>	<u>February</u>	<u>Actual</u>	<u>March</u>	<u>Actual</u>
	<u>Budget</u>		<u>Budget</u>		<u>Budget</u>	
<b>Expected Cash Receipts</b>						
1. Cash sales	_____	_____	_____	_____	_____	_____
2. Collections on accounts receivable	_____	_____	_____	_____	_____	_____
3. Other income	_____	_____	_____	_____	_____	_____
4. Total cash receipts	_____	_____	_____	_____	_____	_____
<b>Expected Cash Payments</b>						
5. Raw materials	_____	_____	_____	_____	_____	_____
6. Payroll	_____	_____	_____	_____	_____	_____
7. Other factory expenses (including maintenance)	_____	_____	_____	_____	_____	_____
8. Advertising	_____	_____	_____	_____	_____	_____
9. Selling expense	_____	_____	_____	_____	_____	_____
10. Administrative expense (including salary of owner-manager)	_____	_____	_____	_____	_____	_____
11. New plant and equipment	_____	_____	_____	_____	_____	_____
12. Other payments (taxes, including estimated income tax; repayment of loans; interest; etc.)	_____	_____	_____	_____	_____	_____
13. Total cash payments	_____	_____	_____	_____	_____	_____
<b>14. Expected Cash Balance</b> at beginning of the month	_____	_____	_____	_____	_____	_____
15. Cash increase or decrease (item 4 minus item 13)	_____	_____	_____	_____	_____	_____
16. Expected cash balance at end of month (item 14 plus item 15)	_____	_____	_____	_____	_____	_____
17. Desired working cash balance	_____	_____	_____	_____	_____	_____
18. Short-term loans needed (item 17 minus item 16, if item 17 is larger)	_____	_____	_____	_____	_____	_____
19. Cash available for dividends, capital cash expenditures, and/or short investments (item 16 minus item 17, if item 16 is larger than item 17)	_____	_____	_____	_____	_____	_____
<b>Capital Cash</b>						
20. Cash available (item 19 after deducting dividends, etc.)	_____	_____	_____	_____	_____	_____
21. Desired capital cash (item 11, new plant equipment)	_____	_____	_____	_____	_____	_____
22. Long-term loans needed (item 21 less 20, if item 21 larger than item 20)	_____	_____	_____	_____	_____	_____

By combining the monthly cash flow reports with an income statement for the year and your beginning and ending balance sheet, you will produce a statement of annual cash flow from operations. The monthly cash flow statement shows your need for seasonal borrowing, while the annual cash flow from operations shows the need for longer-term funds.

## G. TEN STEPS TO BUSINESS SUCCESS

1. **Develop an effective and detailed business plan.** It is the blueprint to your success. Update your business plan to reflect changes as they occur. A good plan should be flexible enough to adapt to a changing environment. Include cash flow projections in your business plan; insufficient working capital can be hazardous.
2. To be successful in small business one must be an **entrepreneur**, a **manager**, and a **technician**.
3. **Take pride in your business**; it is an extension of yourself. Understand your weaknesses and strengths, your product and the market. Provide your customers with the right product, at the right time.
4. **Know your competition**, your industry and your target market inside and out. Do not rely on assumptions and hunches.
5. **Trust yourself and your own judgment** but take the time to truly know your market well - and the products it values. To stay one step ahead, constantly evaluate your business and its role in the market.
6. **Serve the needs of the customers**. Be sensitive to their needs, know how to reach them, and most of all, know what will convince them to buy your product or service. Advertising is essential.
7. **Know your limits**. Are you willing to work day and night to make it work? Don't do it all yourself. Get moral support and the right kind of help to run your business. Professional consultants can help you tap the full resources of your business.
8. **Carefully select your staff**. They are the faces that people associate with your business. Train them to perform the job to your satisfaction and reward them when the job is well done.
9. **Treat employees as individuals**. Each has their own strengths, weaknesses and preferences.
10. **Read relevant newspapers and magazines daily**; become familiar with the financial section. Keep up-to-date so that you may understand the big picture.

## H. FEASIBILITY CHECKLIST

This feasibility checklist is designed to help the pre-business person determine whether his idea represents a valid business opportunity. The high failure rate of new businesses indicates that relatively few new businesses result in successful ventures. Too many entrepreneurs strike out on a business venture absolutely convinced of its merits without having adequately evaluated its real potential.

I. PERSONAL CONSIDERATIONS:	Yes	No
1. Do you enjoy working long hours? .....	___	___
2. Do you have self-discipline & willpower? .....	___	___
3. Do you meet deadlines easily? .....	___	___
4. Do you work well under pressure? .....	___	___
5. Will you jeopardize your home? .....	___	___
6. Do you have the necessary physical strength? .....	___	___
7. Does your family support this venture? .....	___	___
8. Do you have a back-up plan? .....	___	___
II. EXPERIENCE AND SKILLS:		
1. Does your idea make use of your skills? .....	___	___
2. Does your idea require skills you do not have? .....	___	___
3. Can you find experienced personnel at an affordable rate? .....	___	___
4. Are you experienced in this line of work? .....	___	___
5. Do you have managerial experience? .....	___	___
6. Are you able to interpret financial data? .....	___	___
7. Are you familiar with tax regulations? .....	___	___
8. Do you know bookkeeping and accounting? .....	___	___
III. PLANNING AND PREPAREDNESS:		
1. Have you already written a formal business plan? .....	___	___
2. Do you know exactly what services or products will be offered? .....	___	___
3. Do you know what customers to target? .....	___	___
4. Have you arranged for a business location? .....	___	___
5. Do you have a list of potential suppliers? .....	___	___
6. Do you know your competitors' businesses well? .....	___	___
7. Have you arranged for insurance? .....	___	___
8. Do you have a business license? .....	___	___
9. Have you investigated advertising & its cost? .....	___	___
10. Have you hired a competent staff? .....	___	___
IV. REQUIREMENTS FOR SUCCESS:		
1. Will your proposed business meet needed services? .....	___	___
2. Is there already a similar business in your community? .....	___	___
3. Can your business successfully compete against its competition because of an advantage such as lower prices or superior service? .....	___	___

V. DETRIMENTAL FLAWS:	Yes	No
1. Are you affected by any monopolies, shortages, or restrictions that prevent you from obtaining any necessary items at an affordable price? .....	_____	_____
2. Are capital requirements for starting up or continuing operations excessive? .....	_____	_____
3. Is adequate financing going to be difficult to obtain? .....	_____	_____
4. Does your business adversely affect the environment? .....	_____	_____
5. Is your business completely legal? .....	_____	_____
6. Are there any factors that prevent effective marketing? .....	_____	_____

VI. INCOME:

1. Will your business provide you with your desired level of income? .....	_____	_____
2. Do you know your industry's averages - including gross profit, expenses, and net profit as a percent of sales? .....	_____	_____
3. Do you know your industry's inventory turnover rate? .....	_____	_____
4. Have you prepared an income statement to determine the level of sales necessary to support your desired income level? .....	_____	_____
5. From a practical standpoint, can you support the level of sales in question 4? .....	_____	_____

This checklist is a tool to help the entrepreneur determine if there are any major obstacles that will prevent the business from becoming successful. Each **NO** answer should be carefully reviewed to determine how great an impact it will have on the business and to see if anything can be done to correct the problems it may create.

## II. START-UP GUIDELINES

- A. State, County, and City License(s) and Permits
- B. Agency Reference List
- C. Accounting and Recordkeeping
- D. Accounting Systems
- E. Insurance
- F. Readiness Checklist

### A. STATE, COUNTY, AND CITY LICENSES AND PERMITS

When determining what licenses and permits are required for your specific business, it is essential to determine what federal, state, county and city requirements must be met. This information should be obtained very early in the research process to determine if a particular type of business is allowable in the area you are considering.

**In Alabama, every business must obtain a state license and a county license, as well as a city or municipality license.** The State and County licenses are issued by county Probate Judge or License Commissioner in the county where the business is located. A license is required in every county in Alabama, so make sure to confirm with the local licensing authority. Most cities and/or municipalities will also require a business license and the costs associated with the license will depend on the type of business. Contact the city or municipality License Department or Licensing Office for more information.

Useful Information to Help Obtain a License:

- Name of Company
- Type of Business
- Owners Name
- Billing Address
- Physical Address
- Local Phone and Fax Number
- Federal Employee Identification Number

Any questions concerning privilege license laws or store license laws should be directed to:

Alabama Department of Revenue, Sales, Use & Business Tax Division  
P.O. Box 327550, Montgomery, AL 36132-7550  
(334) 353-7827  
<http://www.ador.state.al.us/licenses/index.html>

The following page contains a reference list of agencies and their phone numbers that you can contact to obtain specific information on permits and regulations relating to your particular business.

In addition to this list, it is recommended that entrepreneurs engage the help of a lawyer, preferably a lawyer familiar with the process of starting new businesses. The legal counsel could prove to be invaluable in determining the proper licenses and permits that will be required.

## **B. AGENCY REFERENCE LIST**

### **FEDERAL**

#### **Agencies:**

Environmental Protection Agency (General Information) .....	(800) 241-1754
Equal Employment Opportunity Commission (Birmingham).....	(800) 669-4000
Department of Immigration & Naturalization .....	(800) 375-5283
Federal Identification Number (Form SS-4).....	(800) 829-3676
Federal Information Center.....	(800) 333-4636
Federal Reserve Bank of Atlanta .....	(404) 498-8500
Internal Revenue Service .....	(800) 829-1040
National Climatic Center (North Carolina).....	(828) 271-4800
National Flood Insurance Program .....	(800) 638-6620
Occupational Safety and Health Administration (Birmingham) .....	(205) 731-1534
Occupational Safety and Health Administration (Mobile) .....	(251) 441-6131
Patents and Trademarks Information (Virginia).....	(800) 786-9199
Social Security Administration.....	(800) 772-1213
Tennessee Valley Authority (Tennessee) .....	(865) 632-2101
Technical Library - Muscle Shoals .....	(256) 386-2872
U.S. Census Bureau (Maryland) .....	(301) 763-4636
U.S. Copyright Information (Washington) .....	(202) 707-3002
U.S. Department of Commerce (Birmingham).....	(205) 731-1331
U.S. Department of Labor, Wage/Hour Division (Birmingham) .....	(205) 536-8570
U.S. Forestry Service (Southern Region (R8)) .....	(404) 347-4095
U.S. Small Business Administration (Birmingham).....	(205) 290-7101
U.S. Veterans Administration (Montgomery) .....	(800) 827-1000

### **STATE**

Agricultural Center Board (Montgomery).....	(334) 242-5597
Agricultural Experiment Station (Auburn) .....	(334) 844-2345
Alabama Archives and History (Montgomery) .....	(334) 242-4441
Alabama Attorney General (Montgomery).....	(334) 242-7300
Alabama Building Commission (Montgomery) .....	(334) 242-4082
Alabama Bureau of Tourism and Travel (Montgomery).....	(334) 242-4169

Alabama Commission on Higher Education (Montgomery) .....	(334) 242-1998
Alabama Consumer Protection Agency (Montgomery) .....	(334) 242-7335
Alabama Cooperative Extension Service (Auburn).....	(334) 844-5323
Alabama Department of Aeronautics (Montgomery).....	(334) 242-4480
Alabama Department of Agriculture and Industries (Montgomery) .....	(334) 240-7171
Alabama Department of Conservation and Natural Resources (Montgomery).....	(334) 242-3486
Alabama Department of Economic and Community Affairs (Montgomery).....	(334) 242-5100
Alabama Department of Education (Montgomery) .....	(334) 242-9700
Alabama Department of Environmental Management (Montgomery).....	(334) 271-7700
Alabama Department of Human Resources (Montgomery) .....	(334) 242-1310
Alabama Department of Labor .....	(334) 242-8003
Workmen's Compensation Division (Montgomery).....	(334) 242-2868
Alabama Department of Information Systems (Montgomery).....	(334) 242-3244
Alabama Department of Public Health (Montgomery) .....	(334) 206-5300
Alabama Department of Public Safety (Montgomery).....	(334) 242-4371
Alabama Department of Commerce (Montgomery).....	(334) 242-0400
Alabama Film Office (Montgomery).....	(334) 242-4195
Alabama Forestry Commission (Montgomery).....	(334) 240-9300
Alabama Department of Transportation (Montgomery).....	(334) 242-6358
Alabama Historical Commission (Montgomery).....	(334) 242-3184
Alabama House of Representatives (Montgomery).....	(334) 242-7600
Alabama Industrial Development Training Program (Montgomery) .....	(334) 242-4158
Alabama International Trade Center (Tuscaloosa).....	(205) 348-7621
Alabama Labor Department (Montgomery) .....	(334) 242-3460
Alabama Legislative Reference Service (Montgomery).....	(334) 242-7560
Alabama Public Service Commission (Montgomery) .....	(334) 242-5218
Alabama Revenue Department (Montgomery).....	(334) 242-1170
Alabama Secretary of State.....	(334) 242-7200
Alabama Securities Commission (Montgomery).....	(334) 242-2984
Alabama Senate (Montgomery).....	(334) 242-7800
Alabama Small Business Development Center Network (Tuscaloosa).....	(205) 348-1582
Alabama State Council on the Arts (Montgomery) .....	(334) 242-4076
Alabama State Docks (Mobile).....	(334) 441-7100
Center for Business and Economic Research (Tuscaloosa).....	(205) 348-6191
Commissioner of Insurance (Montgomery).....	(334) 269-3550
Contractors Licensing Board (Montgomery).....	(334) 272-5030
The Work Force Development Division ADECA (Montgomery) .....	(334) 242-5100
Engineers & Land Surveyors Registrars Board (Montgomery) .....	(334) 242-5568
Geological Survey-Oil and Gas Board (Tuscaloosa).....	(205) 349-2852
Governor's Office (Montgomery) .....	(334) 242-7100
Lieutenant Governor (Montgomery).....	(334) 242-7900
Liquified Petroleum Gas Board (Montgomery).....	(334) 242-5649
Register New Company Name (Montgomery).....	(334) 242-5324
State Banking Department (Montgomery).....	(334) 242-3452
Sales Tax.....	(334) 242-1490

**Associations:**

Alabama Association of Independent Colleges and Universities (Montgomery) .....	(334) 356-2220
Alabama Association of Realtors (Montgomery) .....	(334) 262-3808
Alabama Association of School Boards (Montgomery) .....	(334) 277-9700
Alabama Bankers Association (Montgomery).....	(334) 834-1890
Alabama Broadcasters Association (Birmingham).....	(205) 982-5001
Alabama Climate Center (Huntsville) .....	(256) 922-5800
Alabama Coal Association (Birmingham).....	(205) 871-3734
Alabama Concrete Industries Association (Montgomery) .....	(334) 265-0501
Alabama Education Association (Montgomery) .....	(334) 834-9790
Alabama Grocers Association (Birmingham).....	(205) 823-5498
Alabama Hospital Association (Montgomery) .....	(334) 272-8781
Alabama Hotel and Motel Association (Montgomery) .....	(334) 263-3407
Alabama League of Municipalities (Montgomery) .....	(334) 262-2566
Alabama Poultry & Egg Association (Montgomery) .....	(334) 265-2732
Alabama Restaurant & Food Service Association (Birmingham).....	(205) 823-5498
Alabama Retail Association (Montgomery) .....	(334) 263-1915
Alabama Road Builders Association (Montgomery).....	(334) 832-4331
Alabama Textile Manufacturers Association (Montgomery) .....	(334) 279-1250
Alabama Travel Council (Montgomery) .....	(334) 271-0050
Alabama Women in Business (Birmingham) .....	(205) 278-9781
Associated Builders and Contractors of Alabama (Birmingham) .....	(205) 870-9768
Association of County Commissions of Alabama (Montgomery) .....	(334) 263-7594
Better Business Bureau (Birmingham) .....	(205) 558-2222
Business Council of Alabama (Montgomery) .....	(334) 834-6000
Manufacture Alabama (Montgomery) .....	(334) 386-3000
Medical Association of Alabama (Montgomery) .....	(334) 954-2500
National Federation of Independent Business (Montgomery).....	(334) 264-2261
Southern Building Code Congress International (Birmingham) .....	(205) 591-1853
Southern Growth Policy Board (North Carolina) .....	(919) 941-5145

**NOTE:** If State Agency is not listed call the State Information Operator for assistance at (334) 242-8000. Websites for all state agencies are available at <http://www.info.alabama.gov/>

**C. ACCOUNTING & RECORDKEEPING**

For the individual just going into business, experience clearly indicates that an adequate recordkeeping system helps increase the chances of survival and reduces the probability of early failure. Similarly, for the established business owner, it has been clearly demonstrated that an accurate recordkeeping system increases the chances of staying in business and of earning large profits.

It is practically impossible to negotiate for a business loan from a bank without properly prepared financial statements. It may even be difficult to secure credit in any form without statements. Bankers and other credit grantors need to study the business owner's balance sheet and income statement in order to decide whether credit should be extended. Sometimes audited financial statements are required; the recordkeeping system must provide the basis for these statements.

Requirements by federal and local government agencies of adequate records are as important as the management and credit importance of financial statements. The responsibility for maintaining records and proving their accuracy falls on the taxpayer. Federal and local income taxes, payroll taxes, sales taxes, personal property taxes, and an increasing number of other laws and regulations require certain reports which are easier to prepare and substantiate if the figures are organized by a good recordkeeping system.

One critical requirement of effective recordkeeping is to ensure a strict separation of business accounts from personal accounts. Make sure to have a separate bank account solely for business use, and ensure that only business related transactions utilize this business account. Equally important is to ensure that no funds from the business account are used for personal expenses. Maintaining a strict separation of business funds and personal funds will protect your "corporate" shield for liability purposes as well as assist with any governmental audits.

Records backing up government requirements must be available during the audit period. Record retention will depend upon the statute of limitations set forth by local and federal law. It is important to consult an attorney to determine the requirements of governing statutes. Due to the cumulative volume of required records, storage and retrieval can become burdensome. Many business owners are utilizing document scanning and electronic storage services to solve this problem.

A number of "one-book" recordkeeping systems are available. Some are prepared with instructions and forms designed for specific kinds of businesses, while others are for small business use in general.

Some trade associations, manufacturers and wholesalers offer specially designed recordkeeping systems to meet the general needs of a large variety of retail and service establishments. The owners of a business will often find it desirable to obtain specialized assistance to help them adapt such systems to their special requirements.

There are several copyrighted systems providing simplified records, usually in a simplified record book. These systems cover the basic records with complete instructions for their use. The Small Business Administration (SBA) has a publication, FM-10 "Record Keeping in a Small Business," that lists many of these systems. Copies of this publication are available online at [http://archive.sba.gov/idc/groups/public/documents/sba\\_homepage/pub\\_fm10.pdf](http://archive.sba.gov/idc/groups/public/documents/sba_homepage/pub_fm10.pdf).

In order for a recordkeeping system to be useful it must be simple to use, easy to understand, reliable, accurate, consistent, and designed to provide information on a timely basis. To keep effective records you must be able to:

- Identify the source of a receipt
- Keep track of all deductible expenses
- Figure depreciation allowance
- Take advantage of capital gain and loss laws
- Figure your earnings for self employment tax purposes
- Support items on your tax returns
- Maintain separate bank accounts for business and personal expenses

There are four basic types of records that most firms keep:

- Sales records
- Cash records
- Cash disbursements
- Accounts receivable

If you do not have the necessary experience, it is recommended that you consider hiring a certified public accountant to develop your recordkeeping system.

Public accountants also render other accounting services such as auditing, preparation of reports for government agencies, tax planning, analysis of financial reports and a variety of specialized management advisory services.

## **D. ACCOUNTING SYSTEMS**

Accounting systems range from simple and inexpensive to costly computerized systems. Some of the available options include the one-write system, a ledger-less system for accounts receivable and accounts payable, standard ledgers and journals, computerized accounting systems, prepackaged services provided by banks and service bureaus, bookkeeping services and accountants. With this wide variety of options it is important to choose a system that you can understand and feel comfortable using.

The accounting system you choose should meet the needs of your business situation and at the minimum meet the following objectives:

- The system should yield an accurate and precise picture of the operating results
- The records should provide a convenient basis for comparing current data with previous year's operating results and budgetary goals
- The financial data should be presented in a format that is useful to prospective creditors, bankers, auditors and management
- The accounting records should reflect losses such as theft and bad debt
- The accounting process should include compiling and filing reports and tax returns
- The accounting records should be able to substantiate the value of fixed assets for insurance claims, in the event of a loss

- The United States Securities & Exchange Commission requires most publicly held corporations to file certain annual and interim quarterly reports

The accounting system you choose can be established on an accrual or cash basis. In a cash system the accounts are debited and credited as cash is received and paid out. In an accrual system, the income earned and the expenses incurred are recorded when the sale is made or whenever the expense is incurred. The accrual basis of accounting allows the matching of revenues and associated expenses. Due to this matching, the accrual basis is generally considered to be a more accurate and up-to-date statement of profits.

## E. INSURANCE

Some small business owners view insurance as if it were some form of tax. They recognize that it is necessary but consider it burdensome. However, if used correctly, insurance can contribute to the overall success of your business by reducing the uncertainties under which you operate. It can also reduce employee turnover, improve your credit at the bank, make it easier to sell to customers on favorable terms and help keep your small business going in case an insured peril interrupts your normal business operations. The importance of good insurance management is too important to overlook. Therefore, it is essential that you discuss your insurance needs with an agent of your choice as early as possible.

### Insurance Checklist

- |                                 |                           |
|---------------------------------|---------------------------|
| Fire Insurance                  | Group Life Insurance      |
| Liability Insurance             | Business Life Insurance   |
| Automobile Insurance            | Group Health Insurance    |
| Workers Compensation            | Disability Insurance      |
| Business Interruption Insurance | Retirement Insurance      |
| Crime Insurance                 | Key Person Insurance      |
| Glass Insurance                 | Marine &/or Inland Marine |
| Rent Insurance                  | Boiler & Machinery        |
| Employee Benefit Coverage       | Flood Insurance           |
| Aviation Insurance              |                           |

## F. READINESS CHECKLIST

I. THE SITE:	Yes	No
1. Have you decided on a location?.....	_____	_____
2. Have you found a good building? .....	_____	_____
3. Is it big enough to allow for growth? .....	_____	_____
4. Can people get to it easily? .....	_____	_____
5. Do you have adequate parking available? .....	_____	_____
6. Do you have a proper sign?.....	_____	_____
7. Have you signed the necessary papers? .....	_____	_____
8. Has a lawyer checked the lease and zoning?.....	_____	_____
9. Are the utilities in line? .....	_____	_____

**II. EQUIPMENT AND OFFICE SUPPLIES:**

- 1. Do you have the necessary office equipment? ..... \_\_\_\_\_
- 2. Do you have a reliable source? ..... \_\_\_\_\_
- 3. Can you afford to maintain proper levels of supplies and the up-keep of equipment? ..... \_\_\_\_\_

**III. YOUR MERCHANDISE:**

- 1. Do you know precisely what will be sold?..... \_\_\_\_\_
- 2. Are you qualified to sell it?..... \_\_\_\_\_
- 3. Can you afford the suppliers' prices? ..... \_\_\_\_\_
- 4. Can the supplier provide the services you need?..... \_\_\_\_\_
- 5. Do you know how to "merchandise" your goods? ..... \_\_\_\_\_
- 6. Do you have the necessary inventory? ..... \_\_\_\_\_

**IV. RECORDKEEPING:**

- 1. Have you planned a system of records for income, expenses, etc.?..... \_\_\_\_\_
- 2. Do you have separate bank accounts for the business? ..... \_\_\_\_\_
- 3. Have you worked out an effective inventory tracking system?..... \_\_\_\_\_
- 4. Do you know how to keep payroll, tax, and payment records?..... \_\_\_\_\_
- 5. Do you know what financial statements will be needed?..... \_\_\_\_\_
- 6. Do you have an accountant, if one is needed?..... \_\_\_\_\_

**V. LEGAL RECORDS:**

- 1. Do you have all the necessary licenses and permits? ..... \_\_\_\_\_
- 2. Do you know what business laws you have to obey? ..... \_\_\_\_\_
- 3. Do you have a lawyer with small business expertise?..... \_\_\_\_\_

**VI. PROTECTION:**

- 1. Have you made plans for protecting against both employee and customer theft?..... \_\_\_\_\_
- 2. Have you talked with an insurance agent about all the kinds of insurance you need? ..... \_\_\_\_\_

**VII. ADVERTISING:**

**Yes No**

- 1. Do you have a marketing plan?..... \_\_\_\_\_
- 2. Do you know how you will advertise? ..... \_\_\_\_\_
- 3. Can you afford adequate advertising? ..... \_\_\_\_\_

**VIII. PRICING:**

- 1. Do you know the selling price for each item to be sold? ..... \_\_\_\_\_
- 2. Do you know your competitor's price? ..... \_\_\_\_\_
- 3. Can you make a profit with the prices at which you intend to sell?..... \_\_\_\_\_
- 4. Do you have a pricing strategy for old merchandise or slow to sell merchandise? ..... \_\_\_\_\_

**IX. BUYING:**

- 1. Do you have a plan for determining what your customers want? ..... \_\_\_\_\_
- 2. Is it both workable and affordable?..... \_\_\_\_\_
- 3. Do you have buying experience? ..... \_\_\_\_\_
- 4. Do you have reliable suppliers? ..... \_\_\_\_\_

**X. SELLING:**

- 1. Do you have a selling strategy?..... \_\_\_\_\_
- 2. Can you afford the necessary staffing? ..... \_\_\_\_\_
- 3. Do you have a plan flexible enough to cover both the slow and peak times? ..... \_\_\_\_\_
- 4. Are you and your employees experienced in selling? ..... \_\_\_\_\_

**XI. EMPLOYEES:**

- 1. Have you hired the necessary staff? ..... \_\_\_\_\_
- 2. Do they have the needed experience? ..... \_\_\_\_\_
- 3. Have you set personnel procedures? ..... \_\_\_\_\_
- 4. Do you have a benefits package? ..... \_\_\_\_\_
- 5. Do you have a performance appraisal system? ..... \_\_\_\_\_
- 6. Do you have a training program and procedure manuals for new employees? ..... \_\_\_\_\_
- 7. Do you have an employee recruitment plan? ..... \_\_\_\_\_
- 8. Can you offer employees insurance coverage? ..... \_\_\_\_\_
- 9. Do you know what the total salaries and benefits will equal?..... \_\_\_\_\_
- 10. Can you afford this figure?..... \_\_\_\_\_

**XII. CREDIT:**

- 1. Will your customers have the option of buying on credit?..... \_\_\_\_\_
- 2. Have you arranged for the use of credit cards? ..... \_\_\_\_\_
- 3. Do you have a method for determining good creditors from the risky ones? ..... \_\_\_\_\_
- 4. Have you set credit acceptance procedures for the staff to follow? ..... \_\_\_\_\_

**XIII. OTHERS:**

Yes No

- 1. Could you make more money working for someone else? ..... \_\_\_\_\_
- 2. Can you afford the loss if the business fails? ..... \_\_\_\_\_
- 3. Do you have a plan to repay debts?..... \_\_\_\_\_
- 4. Does your family support you completely? ..... \_\_\_\_\_
- 5. Do you have the energy and time to run a business? ..... \_\_\_\_\_
- 6. Do you have adequate funding? ..... \_\_\_\_\_
- 7. Will you need to mortgage your home or use it as collateral? ..... \_\_\_\_\_
- 8. Do you have managerial experience in each aspect of your business? ..... \_\_\_\_\_

This checklist is an important tool in the planning of your new business. Each of these areas must be addressed by the entrepreneur. By following this checklist, the business owner can deal with many of the problems that face a new venture before they become major obstacles.

Serious consideration should be given to the viability of the venture if the entrepreneur has many questions that cannot be addressed or rectified.

### **III. GUIDE TO BUSINESS TAXES**

- A. Introduction to Business Taxes
- B. Taxes on the Business Itself
- C. Sales, Use & Business Taxes
- D. Property Tax
- E. Individual & Corporate Tax
- F. Employment Tax
- G. Tax Numbers
- H. Child Labor Provision

#### **A. INTRODUCTION TO BUSINESS TAXES**

##### **State Taxes**

Some of the most complex issues facing small business owners today are the various taxes and tax structures. This section of “Alabama’s Answers” is devoted to business taxes. The following business taxes are covered in this section.

- Part B – Taxes on the Business Itself
- Part C – Sales & Use Taxes
- Part D – Property Tax
- Part E – Individual & Corporate Tax
- Part F – Employment Taxes

The remainder of this section discusses business licenses, vehicle licenses, tax numbers and forms and child labor laws.

The definitive document for business taxes in the State of Alabama is the “General Summary of State Taxes,” published by the Alabama Department of Revenue. Equally helpful for new business owners is the “Starting a New Business – An Educational Brochure for Alabama Taxpayers.” Both publications are available online:

[http://revenue.alabama.gov/publications/tax-policy/general\\_summary\\_of\\_state\\_taxes.pdf](http://revenue.alabama.gov/publications/tax-policy/general_summary_of_state_taxes.pdf)

<http://www.revenue.alabama.gov/taxpayerassist/StartingANewBusiness.pdf>

Throughout this section there will be links to web pages that give specific information about the particular tax related topic that is being discussed.

## **Federal Taxes**

As an aid to taxpayers, the IRS provides through its irs.gov website the *Small Business and Self-Employed Tax Center* at <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed>. The site contains all of the business tax forms, instructions, and publications needed by small business owners. Additional information on various IRS topics of interest can be accessed utilizing the *A-Z Index for Business* at <http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/A-Z-Index-for-Business>.

The IRS also routinely sponsors small business tax workshops through your local Small Business Development Center (SBDC). To locate the center nearest you, go to the Alabama SBDC Network website at <http://www.asbdc.org>.

## **B. TAXES ON THE BUSINESS ITSELF**

### **Federal Taxes**

Income from proprietorships, partnerships or other unincorporated businesses is subject to individual income taxes of the owners using form 1040 with appropriate schedules. Incorporated businesses are subject to U. S. corporate income tax laws. For further information contact:

Internal Revenue Service  
Tax Information  
1-800-829-1040  
<http://www.irs.gov>

### **State Taxes**

Like the federal income tax, the state also requires that income from proprietorships, partnerships or other unincorporated businesses be taxed at the state individual income tax rate of the owners. In Alabama, both foreign and domestic corporations are subject to a net income tax and Alabama business privilege tax. The Alabama Department of Revenue - Sales, Use & Business Tax Division is available to render assistance to taxpayers at its Taxpayer Service Centers located throughout the State of Alabama, and at its Foreign Audit Section and Central Office located in Montgomery.

For more information contact the Alabama Taxpayer Service Center nearest you. You can find the centers on the internet at <http://www.revenue.alabama.gov/salestax/tpscenters.html> by clicking on "Taxpayer Service Centers."

## **C. SALES, USE AND BUSINESS TAX**

- **Sales and Use Taxes:**

The Alabama Sales, Use and Business Tax Division web page is located at <http://www.revenue.alabama.gov/salestax/index.html>.

Every aspect of Alabama State Sales and Use Tax is discussed on this site. There is an excellent FAQ (Frequently Asked Questions) section at <http://www.revenue.alabama.gov/salestax/faq.html> which discusses e-commerce and mail order sales tax rulings, as well as information regarding who collects and enforces the 37 different taxes in the state.

There are also links to informative web pages on specialty areas such as Business Licensing, Motor Fuels, Severance Tax, Tobacco Tax and Electronic filing.

- **Sales and Use Tax Forms:** <http://www.revenue.alabama.gov/salestax/stforms.html>

Alabama Revenue Department  
Sales, Use and Business Tax Division  
P.O. Box 327550  
Montgomery, AL 36132  
(334) 353-7827

## **D. PROPERTY TAX**

The Alabama Department of Revenue, Property Tax Division administers property tax within the state. The property Tax Division's web page is <http://www.revenue.alabama.gov/advalorem/index.html>.

This division administers 11 types of state property taxes. The two most assessed Property Taxes are the Ad Valorem Tax and the Corporate Shares Tax.

Ad Valorem (Property) Tax – Information on the ad valorem tax rates for various “classes” of property can be found by going to <http://www.revenue.alabama.gov/advalorem/other/caltax.html>. This area contains information on classes of property, property tax exemptions and county millage rates. Property Tax forms are also available online.

## **E. INDIVIDUAL AND CORPORATE TAX**

Alabama Business Privilege Tax - This tax is owed by all corporations, limited liability entities, and disregarded entities which either are doing business in the State of Alabama, or are registered with the Alabama Secretary of State's Office to do business in Alabama.

The Alabama business privilege tax return and payment is due two and one-half months after the end of the taxable year for corporations. The return and payment is due three and one-half months after the end of the taxable year for non-corporate taxpayers, such as limited liability companies.

Business entities are liable for the Alabama business privilege tax for each taxable year during which the entity is in legal existence, regardless of the level of business activity. The Alabama business privilege tax is based on the net worth of the business entity and is levied on business entities by **§40-14A-22, Code of Alabama 1975**. Generally, the minimum business privilege tax is \$100.

Corporate Shares Tax – Information on this tax is also available on the Property Tax Division web site. Click on “Operating Sections”, and then click on “Shares Tax”. Here you will find complete information on the assessment of shares of a domestic corporation along with the necessary forms for filing.

Please contact the Alabama Department of Revenue, Individual and Corporate Tax Division at (334) 242-9800 for more information or forward your correspondence to:

Alabama Department of Revenue  
Individual and Corporate Tax Division  
Business Privilege Tax Section  
PO Box 327431  
Montgomery, AL 36132-7431

Income Tax - This tax is on the entire net income of every individual and corporation domiciled in Alabama, and of every non-resident deriving income from within Alabama. Income tax is required to be paid throughout the year either by withholding or estimated tax. Withholding of Alabama income tax is required by all employers. Whenever a new employee begins a new job, he or she is required to complete a form A-4, Exemption Certificate, and file it with the employer. The employer withholds Alabama Income Taxes on the basis of the information furnished by the employee on this exemption certificate. If an employer fails to secure a completed A-4 form from his employee, the employer must withhold Alabama Income Taxes on the basis of no exemptions. A Federal form W-4 will not be recognized in lieu of a form A-4. Every employer is required to secure completed exemption certificates from his employees, even though he may not be required to withhold any Alabama income tax. Tax withheld is based on withholding tables or the formula provided in the "State of Alabama Withholding Tax Tables and Instructions for Employers" publication. Assignment of an Alabama withholding tax number is required before an employer may submit Alabama Income Tax to the Department of Revenue. Employers file an application for this withholding tax number.

The taxpayer must use this code number to identify all payments of Alabama withholding tax and include the number on all correspondence concerning the business's income tax withholding accounts. A declaration of individual estimated income tax is required of an individual who is subject to income tax if the individual anticipates having income from sources other than wages.

In the case of a single or married person filing separately having non-wage income of \$1,500 or more and in the case of a married person living with spouse and filing a joint return having non-wage income of \$3,000 or more, a declaration of estimated income tax is required. Domestic corporations (corporations created or organized under the laws of the state of Alabama) must pay a corporate income tax imposed on net income at the rate of 5%.

Foreign corporations (corporations created or organized outside the state of Alabama) pay this tax at a rate of 5% also, and it is applicable to the net income from property situated within Alabama and/or from business done and transacted in Alabama. Note: There are special rules with respect to the apportionment of income in the case of foreign corporations having income from both within and outside the state of Alabama. Please contact the Alabama Department of Revenue, Individual and Corporate Tax Division at (334) 242-9800 for more information.

Useful Web Links:

- Individual Income Tax Forms  
<http://www.revenue.alabama.gov/incometax/ITformsindex.html>
- Alabama Corporate Income Tax Forms  
<http://www.revenue.alabama.gov/incometax/ITcorpfinexcindex.html>
- S-Corporation FAQ  
<http://www.revenue.alabama.gov/incometax/scorporationfaq.html>
- Alabama Payroll Tax Forms  
<http://www.revenue.alabama.gov/withholding/index.html>

## **F. EMPLOYMENT TAXES FOR BUSINESS**

Self-employed individuals are responsible for Self-Employment Taxes (SE Tax) and are responsible for paying estimated taxes.

Employment related taxes for a business with employees can generally fit into three categories: those taxes you must pay for each employee, taxes you must withhold from each employee's pay, and workman's compensation insurance. Listed below is information regarding the Self-Employment Tax and estimated taxes, as well as taxes which are withheld from your employees' gross wage or other expenses paid by the employer only.

### **Taxes for Self-Employed and Estimated Tax Payments**

#### **Self-Employment Tax**

Contact: Internal Revenue Service  
Tax Information  
1-800-829-1040  
[www.irs.gov](http://www.irs.gov)

You may also refer to *Publication 334, Tax Guide for Small Business* or for more detailed information visit [www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Self-Employment-Tax-Social-Security-and-Medicare-Taxes](http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Self-Employment-Tax-Social-Security-and-Medicare-Taxes).

## **Estimated Tax**

Contact: Internal Revenue Service  
Tax Information  
1-800-829-1040  
[www.irs.gov](http://www.irs.gov)

You may also refer to *Publication 505, Tax Withholding and Estimated Tax* or visit <http://www.irs.gov/publications/p505/index.html>.

## **Taxes to Withhold for Businesses with Employees**

### **Federal Income Tax Withholding:**

Contact: Internal Revenue Service  
Tax Information  
Toll Free: 1-800-829-1040 [www.irs.gov](http://www.irs.gov)

You may also refer to *Publication 15 (Circular E), Employer's Tax Guide* at the irs.gov website <http://www.irs.gov/pub/irs-pdf/p15.pdf> for more detailed information concerning federal withholdings.

### **Social Security Tax (FICA)**

Contact: Department of Health and Human Services  
Social Security Administration  
1-800-772-1213  
[www.ssa.gov](http://www.ssa.gov)

You may also order forms at this website or call the number listed above.

### **State Withholding Tax:**

Contact: Alabama Revenue Department  
Withholding Tax Section  
P.O. Box 327480  
Montgomery, AL 36132-7480  
(334) 242-1300

The Alabama Department of Revenue has a booklet entitled, "*Withholding Tax Tables and Instructions for Employers and Withholding Agents.*" The brochure contains tax tables and general instructions for computing, withholding, and remitting Alabama withholding tax. Detailed information and instructions are provided at: [http://www.revenue.alabama.gov/Withholding/whbooklet\\_1209.pdf](http://www.revenue.alabama.gov/Withholding/whbooklet_1209.pdf).

Note: State unemployment tax and local occupational taxes are not administered by the Department of Revenue. You can obtain information concerning unemployment tax by writing to the Alabama Department of Labor, Unemployment Compensation Agency, Montgomery, AL 36131, or call 334-242-8830. To obtain information concerning local occupational tax, you must contact the city or county which is administering the tax.

Please be aware that depending on your business' physical location certain local withholding taxes may apply. You may wish to contact your local city government offices concerning such taxes.

### **Other Taxes and/or Expenses Paid by the Employer**

#### **Federal Unemployment Tax**

Contact: Internal Revenue Service  
Tax Information  
1-800-829-1040  
[www.irs.gov](http://www.irs.gov)

You may also refer to *Publication 15 (Circular E), Employer's Tax Guide* at the irs.gov website <http://www.irs.gov/pub/irs-pdf/p15.pdf> for more detailed information concerning Federal Unemployment Tax (FUTA).

#### **State Unemployment Tax**

Contact: Alabama Department of Labor  
Unemployment Compensation Tax Division  
649 Monroe Street  
Montgomery, AL 36131  
(334) 242-8830  
<http://dir.alabama.gov/uc>

#### **Workmen's Compensation Insurance**

Contact: Alabama Department of Labor  
Workmen's Compensation Division  
649 Monroe Street  
Montgomery, AL 36131  
(334) 242-2868 or 1-800-528-5166  
<http://dir.alabama.gov/wc>

## **G. TAX NUMBERS**

### **Federal Employer Identification Tax Number**

Every person who pays wages to one or more employees and who has not previously secured an identification number must file with the Internal Revenue Service for an employer identification number. The application must be filed by those who wish to pay wages on or before the seventh day after the date on which business begins. The federal employer identification number will also be needed for use on Alabama tax forms.

To obtain a federal identification tax number contact:

Internal Revenue Service (www.irs.gov)  
1-800-829-3676  
Ask for form SS-4

### **Alabama Sales Tax Number**

Anyone who sells tangible personal property to an end user and collects sales tax must have an Alabama sales tax number. To obtain an Alabama sales tax number contact:

State Department of Revenue  
Central Registration  
P.O. Box 327790  
Montgomery, AL 36132-7790  
(334) 242-1490  
<http://www.revenue.alabama.gov/taxpayerassist/com-101ff.pdf>

### **Alabama Income Tax Withholding Number**

Any business that hires employees and pays wages needs an Alabama income tax withholding number to hold and remit the taxes withheld to the Department of Revenue. To obtain an Alabama income tax withholding number contact:

State Department of Revenue  
Income Tax Division  
Withholding Tax Section  
P.O. Box 327480  
Montgomery, AL 36132-7480  
(334) 242-1170  
Ask for form COM 101  
<http://www.revenue.alabama.gov/Withholding/index.html>

## State Unemployment Compensation Tax Number

The unemployment compensation tax number is a requirement in order to report your quarterly wages paid to employees. To obtain an unemployment compensation tax number contact:

Alabama Department of Labor  
Industrial Relations Building  
Status Unit  
649 Monroe Street, St. Room 416  
Montgomery, AL 36131  
(334) 242-8830  
<http://labor.alabama.gov/uc/>

One form is needed:

- 1) Form SR2 is used to determine liability and obtain an unemployment compensation tax number. You can now complete this form online through the e-gov (electronic filing) system. See website above.

For quarterly wage filings and payment of unemployment taxes due, you must go online to file and must have an electronic filing account established. The number for questions concerning electronic filing is (334) 954-4701.

## H. CHILD LABOR PROVISION

The minimum age for employment outside school hours is age fourteen. Sixteen years is the minimum age for most employment, including many jobs in manufacturing. However, teenagers may not work in jobs that have been declared hazardous by the Secretary of Labor until age eighteen. In Alabama, persons under age twenty-one are prohibited from dispensing alcohol in places where those beverages are served for consumption on the premises.

Teenagers under age sixteen may not exceed forty hours of work in a week during summer vacation and not more than eighteen hours a week when school is in session. Also, during school session, students who are under age eighteen may not work past 10:00 P.M. on nights preceding a school day.

All teenagers under age seventeen who are employed must obtain a work permit for each job they hold.

- For a summary of Federal Child Labor Laws see:  
<http://www.dol.gov/elaws/esa/flsa/cl/default.htm>
- Also a good reference on the Department of Labor site:  
<http://www.dol.gov/dol/topic/youthlabor/safetyhealth.htm>

## **IV. SMALL BUSINESS ASSISTANCE**

### A. Alabama SBDC Network

1. Small Business Development Centers (SBDC)
2. Alabama SBDC Network Procurement Program
3. Alabama International Trade Center (AITC)

### B. Office of Small Business Advocacy (OSBA)

### C. Alabama Tourism Department (ATD)

### D. Office of Minority Business Enterprise (OMBE)

### E. Department of Agriculture and Industry

### F. Alabama Cooperative Extension Service

### G. Minority Business Development Agency

### H. Alabama Chambers of Commerce

### I. Alabama Career Center System

### J. Service Corps of Retired Executives

### K. Women's Business Center

### L. Environmental Protection Agency (EPA)

### M. Occupational Safety and Health Administration (OSHA)

## **A. ALABAMA SBDC NETWORK**

The Alabama Small Business Development Center Network (ASBDC) provides management and technical assistance at no cost to existing and potential small business persons statewide. This service is offered through a network of Small Business Development Centers (SBDC) located at member universities around the state. The Alabama SBDC Network also provides technical assistance for capital access, government procurement, and international trade through specialty programs. The Alabama SBDC Network is funded in part through a cooperative agreement with the U.S. Small Business Administration.

Small Business Development Centers are a resource where information, counseling and technical assistance are provided to individuals who plan to start a small business or are presently operating a small business. The centers also provide education and training opportunities on a wide range of business topics and assist small businesses with access to capital and SBA loan programs.

Participating universities in the Alabama SBDC Network include: Alabama State University, Auburn University, Jacksonville State University, Troy University, The University of Alabama, The University of Alabama Huntsville, The University of North Alabama, The University of South Alabama, and The University of West Alabama. For more information contact the SBDC nearest you. To find the center nearest you, go to [www.asbdc.org](http://www.asbdc.org) and click on the “Office Locator” button.

### **ALABAMA SBDC NETWORK PROCUREMENT PROGRAM**

The Alabama Procurement Program is part of the Alabama SBDC Network and assists small businesses throughout Alabama to sell to the government. Services include:

- Notifying businesses of government procurement and bid opportunities
- Counseling businesses on the procurement process and on marketing their products and services to the government
- Training business owners at workshops on how to sell to the government
- Providing matchmaking opportunities for businesses to meet with purchasing managers at government agencies and prime contractors

The Alabama Procurement Program counsels firms on doing business with the government. Areas of counseling include bid package preparation, 8(a) and other minority certification programs, proposal preparation, bonding and quality assurance.

Training seminars, held at locations throughout the state, teach business people about the government market and bidding process. Larger procurement conferences provide small businesses the opportunity to network with government agencies and prime contractors.

The Program operates a bid match delivery service and local counseling and training assistance through six locations in Alabama based at SBDC offices. Any business in the state can request the free bid delivery service. For more information about the bid-matching service, procurement counseling, or training seminars and conferences, visit the Alabama Procurement Program website and contact a counselor near you: [www.al-ptac.org](http://www.al-ptac.org).

### **ALABAMA INTERNATIONAL TRADE CENTER (AITC)**

The Alabama International Trade Center (AITC) is a member of the Alabama SBDC Network, operating as a specialty program to assist small businesses to increase international trade. The Center was founded in 1979, as part of the University of Alabama’s outreach service to assist existing industry. The mission of the AITC is to increase the level of export trade activity for small businesses, thereby fostering development and expansion of the economy. Its goals are to: 1) serve existing industry on a confidential, one-on-one basis, 2) assist public and private organizations with trade development by initiating joint projects, researching industries, and targeting foreign markets, and 3) further the University’s mission of research and service by focusing on practical international trade education and training.

The AITC works on a one-on-one confidential basis to help small businesses enter and sell in export markets. Services provided free of charge to small businesses include:

- Customized international market research to identify foreign customers
- Targeted export assistance and management training conducted on-site to help small business owners and staff learn the process of exporting
- Export trade financing to access private and public sector financing for export sales

The Center operates as a federal state partnership program with the U.S. Small Business Administration, promoting the official SBA trade programs and export financing programs in Alabama. The AITC is a partner with the Alabama Department of Commerce, International Trade Division and its *Export Alabama* network of export assistance programs for small business. For more information visit the website: [www.aitc.ua.edu](http://www.aitc.ua.edu).

## **B. OFFICE OF SMALL BUSINESS ADVOCACY (OSBA)**

The Office of Small Business Advocacy (OSBA) is a division of the Alabama Department of Commerce. The Mission of the Office of Small Business Advocacy is to aid, counsel, assist and as much as possible, protect the interest of small business concerns in order to preserve free competitive enterprise and maintain a healthy state economy. OSBA provides information and assistance to citizens interested in entering into commercial activity.

OSBA fosters the growth of Alabama's small operations by giving them a variety of assistance. First and foremost, the agency enlists the cooperation and assistance of public and private agencies, businesses, and other organizations by disseminating information about their programs and services, identifying educational outreach programs and providing counseling to startup and existing small businesses about local, state and federal programs and services available for small business development.

The Office of Small Business Advocacy works closely with the Alabama SBDC Network and its Small Business Development Centers (SBDC) located at member university partners across the state. In addition, The Office of Small Business Advocacy coordinates its efforts with an array of expert resource partners which includes: the Alabama Department of Community Affairs' Office of Minority Business Enterprise, the Department of Transportation – DBE & SBE programs, the Department of Revenue's Office of Taxpayer Advocacy, the Alabama SBA District Office, Women's Business Centers, SCORE, Chambers of Commerce, Business Incubators and local economic developers.

For more information contact:

Office of Small Business Advocacy  
Alabama Department of Commerce, Alabama Center for Commerce  
401 Adams Avenue; Suite 610  
Montgomery, AL 36130-4106  
(334) 242-0485 or 1-800-248-0033  
<http://www.madeinalabama.com/divisions/small-business-advocacy/>

## **C. ALABAMA TOURISM DEPARTMENT (ATD)**

The Alabama Tourism Department (ATD) is a vital part of Alabama's economic development. As such, the impact of tourism, its application to an area's community development and the job creation that the tourism industry spurs is noteworthy.

ATD, as mandated by the Legislature, is entitled with "exclusive power and authority to plan and conduct all state programs of information and publicity designed to attract tourists to the State of Alabama." Its purpose is to promote travel to and through Alabama. It does this both nationally and internationally.

ATD helps ensure that Alabama's economy gains maximum benefits from tourism. More than 26 million travelers spent an estimated \$10.2 billion in the state in 2011, supporting the jobs of 177,000 Alabamians.

The ATD is eager to work with you in every way possible to attract more visitors to your community and our state.

For further information, contact:

Alabama Tourism Department  
401 Adams Avenue  
P.O. Box 4927  
Montgomery, AL 36103-4927  
(334) 242-4169 or 1-800-ALABAMA  
[www.alabama.travel](http://www.alabama.travel)

## **D. OFFICE OF MINORITY BUSINESS ENTERPRISE (OMBE)**

The Office of Minority Business Enterprise (OMBE) resides under the Alabama Department of Economic & Community Affairs (ADECA). The OMBE was created with the signing of Executive Order No. 89 by Governor George C. Wallace in 1978. It was recognized then, as it is now, that small minority and women-owned businesses provide jobs for Alabama citizens and generate growth and prosperity at all economic levels.

The OMBE seeks to advance the creation and growth of small businesses through its minority/women-owned business enterprise (M/WBE) certification program. Certification can often provide a "rite of passage" for new and not-so-new businesses alike. As such, it has the potential to open up new and exciting opportunities for growth and prosperity. Certification is free of charge and can be a significant benefit to businesses competing for contracting and/or sub-contracting opportunities. The OMBE promotes certification and its benefits through various networking events, seminars, workshops, luncheons, trade shows and others. The OMBE also maintains an on-line database for 24-7 access to those interested in acquiring the services of certified M/WBEs. In addition, the OMBE routinely distributes bid opportunities directly to its certified database for various city and county projects including infrastructure and building construction.

Although not a requirement for certification, the OMBE encourages registration with the Department of Finance-Division of Purchasing for opportunities to do business with the State of Alabama as a registered vendor.

The OMBE partners with and supports various like-minded programs, organizations, groups and state entities in their efforts to develop and expand small business throughout the state. Most notable among its many relationships is that with the Alabama Department of Commerce's Office of Small Business Advocacy, its "sister" program.

For more information contact:

Office of Minority Business Enterprise (OMBE)  
Alabama Department of Economic and Community Affairs  
Center for Commerce Building  
401 Adams Avenue, Suite 524  
P. O. Box 5690  
Montgomery, AL 36130-5690  
<http://adeca.alabama.gov/Divisions/ced/cdp/Pages/ombe.aspx>

## **E. DEPARTMENT OF AGRICULTURE AND INDUSTRY**

The Department of Agriculture and Industry supplies both information and technical support to Alabama's farmers, businesses and consumers. In providing the services, the department acts as a regulatory agency, a service agency and a consumer protection agency all in one.

As a regulatory agency, the department is responsible for the monitoring and enforcement of laws and regulations dealing with meats, poultry, produce, nursery plants, pesticides, over-the-counter drugs, gasoline and motor oils, and agricultural products from seeds to fertilizers. As a service agency, it assists farmers and businesses with seed testing, farm legislation, market reporting, animal and crop disease detection, analysis and prevention, pest detection and eradication, foreign and domestic market development, farm law enforcement, research and numerous other activities.

For more information contact:

Department of Agriculture and Industry  
P.O. Box 3336  
Montgomery, AL 36109  
(334) 240-7171  
<http://www.agi.alabama.gov>

## **F. ALABAMA COOPERATIVE EXTENSION SERVICE**

This service is provided through county agents living in the counties they serve. These agents carry out the educational programs of the Extension Service on the local level.

The agents are able to provide answers to almost anything to do with agriculture, home economics, 4-H and growth or community development. Through the actions of these agents, the goal is to identify the strengths and weaknesses of the resources of the county and to set reachable goals and workable plans for improvement. For more information visit the website: <http://www.aces.edu/>.

The following are the area offices and phone numbers:

ACES Headquarters, Auburn University .....	(334) 844-5270
North Alabama District Office, Huntsville, AL.....	(256) 372-4976
Florence Office .....	(256) 766-6223
Scottsboro Office .....	(256) 574-1005
Talladega Office.....	(256) 362-6187
Fisheries and Allied Aquacultures .....	(334) 844-4786
Montgomery Office .....	(334) 265-0233
East Alabama District Office, Auburn, AL .....	(334) 844-5270
Mobile Office.....	(251) 574-8445
Marine Resource and Sea Grant Office, Mobile.....	(251) 968-7576

## **G. MINORITY BUSINESS DEVELOPMENT AGENCY**

The Minority Business Development Agency (MBDA) assists minority businesses in achieving effective and equitable participation in the American free enterprise system and in overcoming social and economic disadvantages that have limited their participation in the past. MBDA provides national policies and leadership in forming and strengthening a partnership of business, industry, and government with the Nation's minority businesses.

Management and technical assistance is provided to minority firms on request, primarily through a network of minority business development centers funded by the Agency. Specialized business assistance is available to minority firms or potential entrepreneurs.

MBDA promotes and coordinates the efforts of other Federal agencies in assisting or providing market opportunities for minority business, primarily through its affiliate network of Minority Business Development Centers. The agency coordinates opportunities for minority firms in the private sector through the funding of business and industry trade associations. Through such public and private cooperative activities, MBDA promotes the participation of federal, state, and local governments, and business and industry in directing resources for the development of strong minority businesses. The agency also operates an Information Clearinghouse for catalogs, publications, and other information for and about the nation's minority businesses.

For further information, contact:

Office of Public Affairs  
Minority Business Development Agency  
Department of Commerce  
1401 Constitution Avenue, N.W.  
Washington, DC 20230  
1-888-324-1551

(Based on your location, your call will be routed  
to the nearest MBDA Regional or District Office.)

<http://www.mbda.gov>

Minority Business Development Agency Business Center  
450-A Government Street  
Mobile, AL 36602  
(251) 433-2250

<http://www.mbda.gov/businesscenters/mobile>

## **H. ALABAMA CHAMBERS OF COMMERCE**

The Alabama Chambers of Commerce are made up of members of the business community in cities throughout the state. Each city has its own organization and each individual chamber works to promote business opportunities in its area.

The Chambers of Commerce in each city rely on the business people in the community to make this program the "community's business spokesman."

Some of the services that the Chambers of Commerce provide include economic development services, governmental affairs services and community affairs services. These services combine together to help make the business community stronger and more productive.

The goal of the Chambers of Commerce is to provide a focal point for able community leadership to effectively encourage and work for economic growth in business and industry. The mission will thereby enhance the quality of life, represent the interests and advancement of members and promote responsible principles in the conduct of business and government.

To find the Chamber of Commerce in your area, go to <http://www.chamberofcommerce.com/> and enter the name of your city or county.

## **I. ALABAMA CAREER CENTER SYSTEM**

The Alabama Career Center is a good place to begin your efforts to find qualified prospective employees. There are over 100,000 active resumes that can be accessed by employers through the state's automated labor exchange called Alabama Joblink, (AJL). Employers have the option to enter and manage their own job orders into AJL's system at <http://joblink.alabama.gov>, or seek Career Center staff assistance.

The Career Center system is the state's one-stop for employers and job seekers offering employment and training services with the ultimate goal of matching business and industry's labor demands with skilled workers. There are 43 Career Centers located throughout the state to assist employers and job seekers. A listing of Career Centers can be found on AJL.

Employment services are paid for by employers through federal unemployment taxes. There is never a fee charged to employers or applicants.

Some of the services are:

- Individual referrals - we refer applicants to you, including highly qualified veterans with specialized skills, experience and training.
- Recruiting by appointment - we screen applicants and schedule appointments for you to interview at your convenience.
- Recruiting at our offices - we provide space in our office for you to interview applicants.
- Recruiting on location - we assist in processing the applicants at a location you designate.
- Application or resume review - we forward pre-qualified applications and/or resumes to you for your review.
- Applicant processing - you can direct all applicants to our office and we will screen and refer the best qualified candidate when you have an opening.
- Testing - professionally developed and validated tests including typing, shorthand, and aptitude batteries.
- Targeted Jobs Tax Credit - Employment Service will determine applicant eligibility for employers who wish to take advantage of elective tax credits available under Federal Revenue Act of 1978.
- Training and Educational Assistance - Incumbent Worker Training Program; On Job Training (OJT) Program
- Salary re-imburement for eligible workers - Supplemental Employment Program through Alabama Department of Human Resources
- College tuition assistance for technical training

A Career Center is as close as your telephone and the AJL system is as close as your PC. Whether you select self-service or staff assistance, you the employer, make the final selection of qualified applicants referred.

For more information contact both:

Alabama Department of Labor  
Employment Service Central Office  
649 Monroe Street  
Montgomery, AL 36131  
(334) 242-8003  
<https://joblink.alabama.gov/ada/>

Governor's Office of Workforce  
Development  
135 South Union Street  
Montgomery, AL 36130-2130  
(334) 293-4707  
<http://alworkforce.dpe.edu>

## **J. SCORE, "Counselors to America's Small Business"**

SCORE is a resource partner with the U.S. Small Business Administration. SCORE or the SCORE Association was previously known as the Service Corps of Retired Executives, but is now recognized as SCORE, "Counselors to America's Small Business." It is a 501(c)(3) nonprofit organization that provides inexpensive or free business mentoring services to entrepreneurs. The organization also presents business workshops and seminars for a fee. Business mentoring services are provided by both active and retired business executives and entrepreneurs who donate their time and expertise as mentors to assist new and established small businesses.

For more information, visit <http://www.sba.gov/al>.

## **K. WOMEN'S BUSINESS CENTER**

Women's Business Centers (WBCs) are a U.S. Small Business Administration resource partner and represent a national network of nearly 100 educational centers designed to assist women start and grow small businesses. Through the management and technical assistance provided by the WBCs, entrepreneurs (especially women who are economically or socially disadvantaged) are offered comprehensive training and counseling on a variety of topics in many languages to help them start and grow their own businesses.

For more information, visit <http://www.sba.gov/al>.

## **L. ENVIRONMENTAL PROTECTION AGENCY (EPA)**

### *Background*

EPA is a regulatory agency created to protect and enhance the environment under the laws enacted by Congress. It is the EPA's responsibility to control and abate pollution in the areas of air, water, solid waste, pesticides, radiation and toxic substances. The EPA is mandated to mount an integrated, coordinated attack on environmental pollution in cooperation with state and local governments.

Environmental Protection Agency  
Ariel Rios Building  
1200 Pennsylvania Avenue, N.W.  
Washington, DC 20460  
(202) 272-0167  
<http://www.epa.gov/>

Alabama Department of Environmental Management  
1400 Coliseum Blvd.  
Montgomery, AL. 36110-2059  
(334) 271-7700  
[www.adem.alabama.gov](http://www.adem.alabama.gov)

Small Business Hotline: (808) 368-5888

This service helps small businesses understand and comply with EPA regulations. Also available is the publication Doing Business with the EPA.

Other EPA Hotlines:

Chemical and Emergency Preparedness .....	(800) 535-0202
RCR Superfund Hotline .....	(800) 424-9346
Pesticide Telecommunications Network.....	(800) 585-7378
Solid Waste Recycling .....	(334) 270-5644
Plastic .....	(800) 243-5790
Cans.....	(800) 876-7274
Foams .....	(800) 944-8448

## M. OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA)

Occupational Safety and Health Administration offices oversee compliance with federal workplace safety and materials-handling regulations. Assistance provided includes information on maintaining a safe workplace and how to comply with OSHA regulations. For additional information, go to <http://www.osha.gov/> or call the number below for your area.

OSHA Birmingham .....	(205) 731-1534
Mobile .....	(251) 441-6131

## V. SMALL BUSINESS FINANCING

### A. FINANCING OVERVIEW

The financing of a small business is normally the biggest obstacle that the entrepreneur has to overcome in the attempt to start a new business. Developing a sound strategy for obtaining the proper type and amount of financing is crucial for the long-term success of any business opportunity.

There are many different types of financing options available to today's entrepreneur and these options include both public and private sources. The discussion of available financing options that follows will look at some of the more viable options from which the entrepreneur may choose.

### B. FINANCING AGENCIES AND PROGRAMS

#### Small Business Administration

The U.S. Small Business Administration and its nationwide network of partners help millions of potential and current small business owners start, grow, and succeed. Resources and programs targeting small businesses provide an advantage necessary to help small businesses effectively compete in the marketplace and strengthen the overall U.S. economy. Through a

number of programs, SBA offers assistance with starting a business, financing a business, contracting opportunities, and recovering from disaster. All SBA programs and services are provided on a nondiscriminatory basis. Visit SBA online for small business news, programs, and training: [www.sba.gov](http://www.sba.gov).

The SBA offers loan guarantees to private sector banks under two primary loan programs called the SBA 504 loan program and the SBA 7a loan guaranty program. The three principal players in each of these programs are – the small business, the bank lender, and the SBA. SBA guarantees a portion of the loan and this reduces the lender's risk of the borrower's non-payment.

To qualify for a SBA guaranty loan program, a small business must meet the lender's criteria and the requirements of the specific SBA 504 loan program or the SBA 7a program. Eligibility requirements, guaranty percentages, interest rates, fees, and use of proceeds vary for each program and are subject to change. For the latest information, please refer to the SBA website and contact your local banker.

### **SBA 504 Loan Program**

The United States Small Business Administration (SBA) enables growing businesses to secure long-term, fixed-rate financing for commercial industrial real estate and/or major machinery and equipment through the SBA 504 Loan Program. The program is designed to promote local economic development by helping healthy, growing businesses finance the acquisition of long-term fixed assets, including land, buildings, and major machinery and equipment.

The 504 Program gives small business owners access to the same low-cost, fixed-rate, long-term financing that large businesses have through the bond markets. Start up businesses are also eligible for this program.

SBA promotes this program through certified development companies (CDC). A CDC financed project can be of any size, but the SBA backed portion of the loan is usually limited to 40% or \$5,000,000 (\$5,500,000 for small manufacturers). A commercial lender participates in 50% of the project in return for first position on collateral. The minimum debenture is \$25,000 with typical projects ranging in size from \$200,000 to \$5 million.

Since most U.S. businesses meet the SBA definition of a small business, chances are excellent that yours will too. To qualify for a SBA loan, your business must be owner operated; for profit; organized as a sole proprietorship, corporation, partnership or LLC; have a business net worth below \$15 million and have a net profit after taxes below \$5 million in the last two operating years. If your business exceeds these size standards, there are alternate standards based upon number of employees or gross sales under which you may qualify.

The SBA 504 Loan Program offers many benefits to small businesses. They include low down payment (allowing the small business to preserve working capital), longer terms, and larger loan amounts than may be available through a conventional loan. In many cases, the borrower's down payment will be 10% of project costs (15% for businesses less than two

years old, and 15% for special purpose buildings; 20% if both). In addition, interest rates on the SBA 504 Loan will be below market and the rate will be fixed for the loan term.

The process of obtaining this type of loan involves submitting a proposal to a certified development company (CDC). They will in turn work with you and your bank or financial institution in order to complete an SBA application. The loan application will then be submitted to the CDC's loan committee for final approval to send to SBA. Finance Specialists from any one of the following five CDCs will assist the small business in packaging the loan application. Several of these CDCs also provide 7a loan assistance.

### **Certified Development Companies**

<b>Agency</b>	<b>Service Area</b>
Alabama Small Business Capital Contact: Angie Sweatman, Vice President 3120 Frederick Road, Suite K Opelika, AL 36801 (334) 275-9700 Email: <a href="mailto:angie@asbc504.com">angie@asbc504.com</a> Web: <a href="http://www.fbdc.net">www.fbdc.net</a>	Statewide
Foundation Capital Contact: Bob Dickerson, Executive Director 1500 1 <sup>st</sup> Ave. N., Ste. Unit 12/B106 Birmingham, AL 35203 (205) 250-6380 Email: <a href="mailto:CapitalSolutions@charter.net">CapitalSolutions@charter.net</a> Web: <a href="http://www.foundationcapital.biz">www.foundationcapital.biz</a>	Statewide
Greater Mobile Development Corporation Contact: Teresa Sands, Economic Dev. Coordinator Business Innovation Center 1301 Azalea Rd., Ste. 201 Mobile, AL 36693 (251) 650-0826 Email: <a href="mailto:gmdc@ceebic.org">gmdc@ceebic.org</a> Web: <a href="http://www.greatermobile.org">www.greatermobile.org</a>	Statewide
Southern Development Council, Inc. Contact: Dana Moore, Executive Director 8132 Old Federal Rd Montgomery, AL 36117 (334) 244-1801 or 800-499-3034 Email: <a href="mailto:dnmoore@cdcinc.org">dnmoore@cdcinc.org</a> Web: <a href="http://www.sdcinc.org">www.sdcinc.org</a>	Statewide

## **SBA 7a Loan Program**

7(a) loans are SBA guaranteed loans for lenders who choose to participate with SBA in the 7(a) program. These lenders structure their own loans within SBA's guidelines and receive up to a 85 % guaranty from SBA on a portion of this loan. The most attractive feature of the 7a loan program is that through its risk reduction to the bank, capital is made more accessible to the business.

The SBA 7a loan proceeds can be used for working capital; refinancing existing debt; machinery, equipment, fixtures, and furniture; expansion, renovation or construction of facilities and leasehold improvements; land or building acquisition.

The 7a program loan terms are as follows:

### *Maximum Loan Amount*

\$5 million gross (\$5.5 million for small manufacturers)

### *Percent of Guaranty*

Loans over \$150,000 and up to \$5 million (75%)

Loans up to \$150,000 85% guaranty

### *Maximum Loan Maturity*

Working Capital– generally 7 to 10 years

Equipment– up to 10 years (depending on the useful life of the equipment)

Real Estate– up to 25 years

### *Maximum Interest Rates*

(Fixed or Variable)

Loan term less than 7 years (WSJ Prime + 2.25%)

Loan term 7 years or more (WSJ Prime + 2.75%)

## **Additional SBA Programs**

While the 504 and 7a type loans are the primary lending programs of the SBA, they do provide a number of other programs. These additional loan programs include the:

- SBA Express
- Patriot Express
- Advantage Loans
- CAPLines
- Surety Bond Guarantee
- Small/Rural Lender Advantage Loan
- Export Working Capital
- International Trade
- Microloans
- Dealer Floor Plan Loan

For more information on each of these loan programs, please visit [www.sba.gov](http://www.sba.gov).

Also, as part of the SBA's goal of helping to provide financing to small businesses, they license financial organizations to act as Small Business Investment Companies (SBIC). These SBICs are very similar to venture capital companies and are privately owned and managed. For more information you can contact:

Alabama District Office  
801 Tom Martin Dr, Ste. 201  
Birmingham, AL 35211  
(205) 290-7101  
[www.sba.gov/al](http://www.sba.gov/al)

### **U.S. Department of Agriculture-Rural Development**

The U.S. Department of Agriculture (USDA), through the Rural Development State Office guarantees term loans to non-farming businesses in rural areas. The Rural Development Office does not make direct loans under this program. The program offered by USDA Rural Development is similar to that offered by the SBA 7a program but is larger in scope. The USDA Rural Development program offers guarantees up to 80% on loans between \$750,000 and \$10,000,000. One stipulation of the program is that those businesses who apply for this type of loan must be located in communities with populations under 50,000. Priority will be given to those communities with populations less than 25,000.

This program allows fixed assets to be financed for up to 30 years; machinery and equipment up to 15 years; and working capital up to 7 years. The USDA Rural Development requires existing businesses to provide 10% tangible balance sheet equity and new businesses must provide 20% - 25% tangible balance sheet equity. Due to the fact that this is a public program, job creation and retention are priorities.

Another program that the USDA Rural Development Office offers is a program aimed at communities that provide low interest loans to finance water and waste infrastructure and other essential community facilities such as fire, rescue and public safety; health services; and community, social and cultural services. The interest rates for this program are based on the community's median family income.

The USDA Rural Development Office has a relatively new community guaranteed program. Under this program a guarantee will normally not exceed 80%, and loan purposes are the same as community program insured loans.

For information on this financing opportunity, contact:

USDA Rural Development  
Sterling Center, Suite 601  
4121 Carmichael Road  
Montgomery, AL 36106-3683  
(334) 279-3400  
<http://www.rurdev.usda.gov/al>

## **Alabama SAVES**

Alabama SAVES is a financing program that provides low-interest loans to finance renewable energy systems and implement energy efficiency improvements (lighting, HVAC, new energy efficient equipment, etc.) for existing private, commercial, industrial, and institutional entities.

For more information visit [www.alabamasaves.com](http://www.alabamasaves.com).

## **State Small Business Credit Initiative (SSBCI)**

The Alabama Department of Economic and Community Affairs (ADECA) offers the SSBCI in conjunction with the U.S. Treasury. The SSBCI guarantees term loans or lines of credit to new and existing small businesses. Working with local banks, the SSBCI offers loans for use with start-up costs, working capital, business procurement, franchise fees, equipment, construction, renovation, tenant improvements, and other restricted uses.

For more information visit <http://adeca.alabama.gov/Divisions/ced/cdp/Pages/SSBCI.aspx>.

## **ADECA Float Loan (Community Development Block Grant)**

The ADECA Float Loan program provides loans for expanding companies that are adding employees.

For more information visit <http://adeca.alabama.gov/Divisions/ced/cdp/Pages/CDBG-Disaster.aspx>

## **Private Financing**

The major source of private financing is direct bank loans. These are loans that are negotiated directly with a bank and the terms of the loan are based on the bank's requirements.

The key to successfully obtaining a loan of this type is to be fully prepared before you ever talk to a banker. This preparation includes writing a detailed and accurate business plan. A good business plan tells the banker you are fully prepared to enter into this business opportunity and will increase his faith in you and your ability to make a success of the business.

It is estimated that 90% of all the prospective borrowers that come to a bank for a loan are not prepared. Since bankers do not have the time to do the research for the borrower, it is safest and easiest for them to say no. The following is a list of suggestions to help increase your chances of getting a loan:

- Prepare the detailed business plan complete with financial statements.
- Pick a bank that has a reputation for making small business loans.

- Make an appointment to meet with the banker. Do not just walk in.
- Demonstrate your good character to the banker. This is one of the most crucial deciding factors.
- Know what type of loan you want and how much of a loan you will need.
- Be prepared to personally guarantee the loan or meet certain equity requirements.
- Be honest with the banker and answer all questions openly.

### **Personal Savings**

Another widely used source of funds is the savings of the entrepreneur. These savings and those of other family members are a viable source of funds and show future creditors that the owners of the business are willing to personally stand behind their business. This type of faith is what banks and other creditors like to see before lending money to any small business operation.

Another advantage to financing a business through personal or family savings is the fact that it is less risky than bank financing and it is also less costly.

Reducing risk and expenses early in the life of a business are two factors that help to insure the long run success of a business. For these reasons this financing option should be given every consideration.

Personal budgeting experience is another factor that bankers look for when they evaluate a person's loan potential. Those people who demonstrate that they can set up and follow a personal budget impress the banker as having the skill and experience necessary to develop and follow a budget for a business, which is a critical factor in the success or failure of a business.

Since budgeting is such an important part of the business cycle, it is recommended that anyone considering opening a business should develop a personal budget because it is good experience and bankers are impressed with those people who have budgeting experience.



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Office of Small Business Advocacy  
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Alabama Center for Commerce  
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