Women Accessing Capital Training 101:

Putting Your Financial House in Order

Course Instructor:

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WIPP

Women Impacting Public Policy

- The Voice for Women in Business in our Nation's Capital.

- National nonpartisan public policy organization representing over half a million Women Business Owners including 51 business organizations.

- Advocates for and on behalf of women and minorities in business.

- Thirty-one local Instant Impact teams across the country engaging with legislative officials and the business community to advocate for Women Business Owners.

www.WIPP.org

Women Accessing Capital:

Women, Money and Opportunity

National program from WIPP's "Women, Money and Opportunity" series.

The program is designed to educate women business owners on how to secure the money that will support and grow your business.

www.WomenAccessingCapital.com

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Course Goals

- This is a basic course that helps create a framework of preparing your company for capital.
- Each topic in this course will be broad and non-specific. It is designed to give you a foundation regarding financial information.

Putting Your Financial House In Order

- Choosing the Right Entity Type
- 4 Critical Financial Techniques
- Managing Company Cash Flow
- Top 10 Financial Tips-Personal/Business

Choosing the Right Entity Type

Tax Entity Choice throughout the U.S. is one of the most critical issues in determining if you are operating your business in a tax and liability model that is most applicable and efficient for your business.

Choosing the Right Entity Type

- C-Corporation
- S-Corporation
- Limited Liability Company
- Partnership
- Sole Proprietorship

Choosing the Right Entity Type

- Formalities of Existence
- Limited Liability
- Pass-Through Taxation
- Centralized Management
- Flexibility in Sharing Profits & Control
- Continuity of Life
- Free Transferability of Interests

C-Corporations

Key Strengths

- Virtually unlimited in the number and **type** of shareholders
- The individual business owner has a "limited liability" if the business entity, and not the owner, is responsible for the debts and obligations of the business.
- The shares of stock owned by shareholders are freely transferable by the holders.
- A corporation has a "continuous life" because it does not cease when its owners change or die.
- The corporation is taxed itself as a separate entity.

C-Corporations

Key Tradeoffs

- Profits are taxed twice
- **Entity** may be relatively difficult and expensive to form and maintain
- **Entity** is heavily regulated
- Shareholders cannot deduct losses
- Shareholders can be taxed on contribution of appreciated property
- Liquidation of the corporation is a taxable event

S-Corporations

- Qualification as an S-corporation offers a potential tax benefit
- Income, gains, deductions, and losses of the corporation are generally passed through to the shareholders
- Shareholders report the S-corporation's income, gains, deductions, and losses on their individual federal income tax returns
- Elimination of potential for double taxation of corporate earnings in most circumstances

S-Corporations

- Many employee benefit deductions are not available for benefits provided to 2 percent shareholders of an S-corporation.
- It is important to note that S-corporation treatment is **not** available to all corporations. It is available only to qualifying corporations that file an election with the IRS.
- Several requirements include limitations on the number and type of shareholders and on who can own stock in the corporation.

Limited Liability Companies (LLC)

- A limited liability company (LLC) is a type of entity that provides limitation of liability for owners, like a corporation.
- State law generally provides much more flexibility in the structuring and governance of an LLC as opposed to a corporation.
- Most LLCs are treated as partnerships for federal income tax purposes, thus providing LLC members with pass-through tax treatment.
- LLCs are not subject to the same qualification requirements that apply to S-corporations.

Limited Liability Companies (LLC)

- An LLC has the characteristic of "continuous life" because it does not cease when its owners change or die. It goes on until the date specified in the articles of organization or until it is dissolved by some deliberate action of the owners.
- An ownership interest in a LLC is part of a member's estate and can be transferred or assigned according to procedures specified in the articles or operating agreement.
- An LLC is a distinct legal entity that is separate from the people who own and manage it. It is considered a "legal person."

Partnerships

- There must be at least two partners
- Relatively simple and inexpensive to create and operate
- No limit on the number and type of partners
- Flexibility in sharing profits and control
- Profits taxed only once
- Partnership interests can be freely assigned
- Partners can contribute appreciated property tax-free
- Liquidation of a partnership is generally tax-free

Partnerships

- Each partner can typically "bind" the partnership
- Partners are personally liable for any acts of the others, and all partners are personally responsible for the debts and liabilities of the business
- The entity can obtain credit, file for bankruptcy, transfer property, and so on
- It is not, itself, subject to federal income taxes
- Income, gains, deductions, and losses of the partnership are generally reported on the partners' individual federal income tax returns
- Partnership does not possess continuity of life
- Fringe benefits are taxable to partner-employee

Sole Proprietorships

<u>Key Strengths</u>

- Business can be freely sold
- Sole proprietor can keep all the profits and deduct all losses
- Sole proprietor can save taxes if spouse and/or children are hired
- Profits taxed only once
- Management is centralized
- Relatively simple and inexpensive to create and maintain

Sole Proprietorships

Key Tradeoffs

- Sole proprietor is personally liable for the obligations of the entity
- The owner can be sued and enter into contracts on behalf of the business
- Life span of the entity is limited to the life of the sole proprietor

Other

- Income and expenses are reported on the owner's Schedule C of the individual Form 1040

4 Critical Financial Techniques

- Cash Flow Forecasting
- Cash Breakeven
- Forecasting the Balance Sheet
- Sustainable Growth Rate

Cash Flow Forecasting (Budgeting)

- Cash flow forecasting, or budgeting, describes the anticipated movement of cash during the year.
- A worksheet needs to be prepared that lists, month by month, all expected cash receipts and all expected cash disbursements.
- This worksheet, rather than a monthly projection of revenues and expenses, is of great importance because managers of small firms cannot assume that net profit will equal net cash flow.

Cash Breakeven

- Cash breakeven is defined as the forecasted dollar sales level at which cash receipts will equal cash disbursements.

- Use of the cash breakeven formula will not pinpoint the exact time during the course of a year that a cash loss will occur, nor the magnitude of that loss.

- It is a **supplement** to the cash budget because the breakeven only reveals the net cash at the end of the year. Budgeting does month-by-month cash flow forecasting.

Forecasting the Balance Sheet

- A company uses current and fixed assets to create sales. As the sales level grows, additional assets are required for purchase.

- A firm must forecast its balance sheet to determine the dollar amount that must be invested in additional assets and to plan the source of the dollars. As always, it is to the firm's advantage to plan ahead.

Sustainable Growth Rate (SGR)

- Growth is a two-edged sword.
- The edge facing the smaller, resource-poor firm is razor sharp. Because growth requires the disbursement of cash for additional assets, a small firm can grow itself broke.
- Knowing the company's SGR enables the firm to evaluate how fast the firm can grow in sales without experiencing cash problems.

Managing Company Cash Flow

- Managing Company Receivables
- Managing Company Payables

Managing Company Receivables

- Stay on top of payments
- Make it easy for them to pay
- Institute a credit policy
- Institute a collections policy

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Managing Company Payables

- Manage your due dates
- Extend your payment terms

Top 10 Financial Tips

1. Get Paid What You Are Worth and Spend Less than You Make
2. Stick to a Budget
3. Pay Off Credit Card Debt
4. Contribute to a Retirement Plan
5. Have a Savings Plan

Top 10 Financial Tips

6. Invest – Consistently
7. Maximize your Employment Benefits
8. Review Your Insurance Coverages
9. Update your Critical Estate and Business Documents
10. Keep Good Records

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Questions?

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Programs Powered by WIPP:

Women, Money and Opportunity combines policy, resources, and a wealth of knowledge from experts within the WIPP community to educate women business owners.

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Entrepreneurs, Energy & Environment (E3)
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- Access to Capital, Procurement, Energy & Healthcare Committees
- Local Instant Impact Teams
- Weekly Policy Updates Relating to Your Business

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