

## Thinking About Starting a Business?

### In This Economy, Don't Quit Your Day Job – Start With Good Advice First

If you've ever fantasized about quitting your job and starting a business, you're certainly not alone. However, it's definitely not something to do on a whim – you'll need time and good advice.

A business startup requires parallel planning in advance for your business and personal finances. That's because business owners – even those who are acquiring ongoing businesses or starting their own companies on the cheap – quickly find their business and personal finances are inextricably linked.

That means that before you plan the business, plan your finances first. Here are some basic steps to consider right now:

#### **Get some advice first:**

You need not one, but two sets of financial advice when starting a business. The first involves the viability of your business concept. You should understand your business idea inside and out before you launch and what your new company's immediate and long-term cash needs will be. The second set of advice involves your own finances and how prepared you are for what will surely be a major lifestyle transition. Because new business owners frequently underestimate their new business's expenses starting out, they can find themselves funding those business needs out-of-pocket. That means less money for day-to-day living expenses as well as long-term planning for retirement. That's why it's critical to consult a tax expert and a financial planning professional at the outset.

#### **Get rid of your debts:**

With the possible exception of mortgage debt, there's very little "good debt" in the life of a businessperson. So while you're researching your business concept and putting together your own financial plan, start cutting back and erasing as much credit card and adjustable-rate debt from your personal life as possible. The credit crisis is making it tough for any business owner – even experienced ones – to borrow money at attractive rates. You'll have the most flexibility when you owe as little as possible.

#### **Work on your emergency fund:**

While it's wise for everyone to have 3-6 months of cash set aside for basic living expenses in case they lose their job or face a medical emergency, emergency funds are particularly necessary for new business owners. Startups can be particularly expensive, and most businesses are not profitable from day one. Plan a more extensive emergency fund for yourself and for the business as well.

#### **Start thinking about your legal business structure:**

Your personal financial situation and the kind of business you're starting should determine the legal designation of your company.

Before choosing a business structure, such as a sole proprietorship, S or C corporation, partnership, Limited Liability Partnership (LLP), or Limited Liability Company (LLC), owners should reflect on their business in the context of their overall financial life and ask themselves a series of questions:

- Is the business going to be your primary source of personal wealth and daily cash flow?
- Is it a side business?
- Do you expect the business to pay for your retirement?
- Do you want it to provide other financial benefits?
- Do you want to pass it on to family members or sell it to existing employees or outside buyers?

The answers to these questions figure importantly into the decision, along with other key factors such as what type of business you're starting, its risk factors, current tax laws, and regulations such as workman's compensation.

**Plan your healthcare and other basic benefits:**

Automatic benefits are the plus side of working for someone else. When you're working for yourself, you become your own HR department and chances are you won't be able to match your old employer's buying power. If you support a family with these benefits or if you have particular health concerns, you need to price the out-of-pocket costs of such benefits before starting your own company – depending on the business and the cost of those benefits, you might want to rethink your plans.

**Price disability coverage now:**

You might have short-term disability coverage as part of your current employee benefits, but that will likely end once you quit your job. You should price long-term disability coverage based on your present working salary so you can qualify for the highest possible benefit. Disability coverage is critical for self-employed people since they're their own support system.

*May/ 2009 — This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by Joseph J. Bilello, ChFC, Chartered Financial Consultant, a local member of FPA.*



**Joseph J. Bilello, ChFC**

110 Crown Oak Centre Drive • Longwood, Florida 32750-6166

phone 407.331.7330 • fax 407.331.0875

[AvantiWealth.com](http://AvantiWealth.com)