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Maine Small Business Development Centers

Building Maine's Future, One Business at a Time

If you are thinking about **starting a business**, or if you've just started one, you probably have a lot of questions. And that's a good thing! You want to succeed and feel competent and confident about what you're about to do. **It's a big deal.** The Maine Small Business Development Center (Maine SBDC) gets it.

We can help. The **Maine SBDC** has been providing free business advising to Maine's small businesses and entrepreneurs since 1977. We have experienced, knowledgeable, certified business advisors who can help businesses at all stages to provide confidential, individualized business development assistance – **at no cost.**

Get expert advice on everything you need to know about starting your business. Tell us about your idea and we'll get started. There's a lot to think about and do: how to know if your idea is a good one, how much will it cost to start and run the business, how to write a business plan and create financial spreadsheets, do you need a license, do you have to register your business, how can you get financing? We can help with all that and more.

Our centers are located around the state. Call us at **800-679-7232** to find out how we can help you or go to our website: **www.mainesbdc.org** for more information or to **Request Advising.**

The Maine SBDC is dedicated to helping entrepreneurs and small business owners – **no matter how small** - get off the ground with knowledge, resources and information to **confidently start their business.** And once you've started your business you can rely on the Maine SBDC to continue to be there for you whatever your business needs may be in the future.

GETTING STARTED

There are many reasons for wanting to start a business.

Maybe you have an **idea** or a **talent** for something and want to turn it into a business. Or maybe you have limited options for employment and **self-employment** is something you are considering. Perhaps you are **retiring** and finally want to make that **dream** of being your **own boss** come true. Or you want to start a part-time business to earn **extra money**. Whatever your reasons are, you want to **do it right** and **be successful**. The activities needed to start a business are different than those needed to run a business. That's where **A Guide to Starting a Business in Maine** can help you get off to a good start by providing the **basics of starting a business**. Even if you've already started your business you can benefit from the information provided in this Guide.

Here's what you'll find inside:

- General checklist of business startup items
- FAQs that our business advisors often encounter
- How to do a feasibility study to determine the probable success of your business
- How to write a business plan
- Information about:
 - ✓ financing your business
 - ✓ choosing a business entity
 - ✓ naming your business
 - ✓ what tax forms are needed
 - ✓ licensing
 - ✓ business insurance
 - ✓ registering your business
 - ✓ hiring employees
 - ✓ and more

This Guide is intended to provide basic information to put you on the right path to starting a business in Maine. Your business may have additional requirements or needs that are specific to your type of business that are not covered in this Guide. It is best used in conjunction with a Maine SBDC business advisor or other business professional. For additional help please contact:

Maine Small Business Development Centers

800-679-7232

www.mainesbdc.org

BUSINESS STARTUP CHECKLIST

The following is a list of steps which provide general guidelines to anyone who is starting a business in Maine.

- ✓ Prepare a written **business plan**, complete with **pro-forma financial statements**. This can serve as an operating guide as well as a financing prospectus. The business plan describes what you plan on doing and how you plan on doing it.
- ✓ **Choose a business entity**. Decide whether you wish to operate as a sole proprietorship, partnership, limited liability company, or corporation.
 - If you decide not to incorporate and wish to **protect the name of your business**, you may file a **Trademark** or **Service mark** with the Secretary of State's office. For information about filing for marks in Maine, you may call 207-624-7736 or go to www.maine.gov/sos/cec/corp.
 - If your business will operate under a business name that is different from your given name, you must register that name in the city or town where your business is located. This is called filing a **D/B/A (Doing Business As)** and the fee varies slightly, according to your location.
 - If you decide to **incorporate**, form a **limited liability company (LLC)** or a **partnership**, you should consult an attorney and tax accountant. However, you can obtain incorporation papers from the Maine Secretary of State, Bureau of Corporations, 101 State House Station, Augusta, ME 04333. Telephone: 207-624-7736. Forms and information are also available from the website: www.maine.gov/sos/cec/corp. If already incorporated in another state, obtain an application to do business in Maine as a foreign corporation from the same office.
- ✓ Determine whether you need to obtain any **state licenses** or **permits** to operate your business. **Business Answers**, a program of the Maine Department of Economic and Community Development, has a **One-Stop Licensing Center** for all the information needed to obtain appropriate licenses for your business. This service can be reached at 1-800-872-3838 (in state) or 1-800-541-5872 (out of state) or go to the website: <https://www.maine.gov/portal/business/starting.html>.
- ✓ Locally, check with the local code enforcement officer to determine if your business will be compliant with **local zoning ordinances**. You should also inquire about local licenses and permits at your local town office or city hall.
- ✓ Contact an insurance agent regarding the **necessary insurance coverage** your business will require.
- ✓ Register for a **Federal Employer Identification Number (EIN)**. Complete and file IRS Form SS-4, EIN. You are required to file this if you: pay wages to one or more employees; or are required to have an EIN to use on a specific return, statement, or document (often banks will

require this for a business checking account); or plan to incorporate (in which case owners drawing salaries are considered employees). This form can be obtained from the nearest IRS office, or call 1-800-829-3676. IRS forms and publications can be downloaded from: www.irs.gov.

- ✓ *Recommended:* Once you obtain your EIN, open a business bank account. This is a useful way to track revenue and expenses and maintain separation between business & personal funds.
- ✓ Register for **Maine State Income Tax Withholding** with the Maine Revenue Services, 207-624-5644. Download or complete online the Application for Tax Registration from www.maine.gov/revenue under Tax Registration.
- ✓ If you **have employees** or decide to incorporate as an S-Corp or C-Corp, you will need to:
 - Register for **Unemployment Insurance** with the Maine Department of Labor. You can register online at <https://maine.gov/reemployme> or contact the Maine Department of Labor at 207-621-5120 or division.uctax@maine.gov.
 - Have employees complete and keep in employer's files: **Employee's Withholding Certificate W-4** obtained from the IRS and **Employment Eligibility Verification Form I-9** obtained from the U.S. Dept. of Citizenship and Immigration Services. This form can be downloaded from: www.uscis.gov/forms or call 1-800-375-5283.
 - Obtain **Worker's Compensation Insurance** from the business's insurance carrier.
 - Maine employers are required to **report newly hired, rehired or terminated employees** to the Maine Department of Health & Human Services (DHHS) within 7 days. Employers may submit reports by using the New Hire online portal. For more information contact Division of Support Enforcement and Recovery at 207-624-4100 or go to: www.maine.gov/dhhs/ofi/dser.
 - Obtain and post the **required labor posters** that summarize state and federal labor laws by calling the Maine Department of Labor at 207-623-7900 or download from: www.maine.gov/labor/posters.
- ✓ If you plan to **sell a taxable product or service**, you must obtain a State Sales Tax Number by filing the Application for Tax Registration with the Maine Revenue Services, 207-624-5644. You can download the application or complete online at www.maine.gov/revenue.
- ✓ Apply for a **Resale Certificate** if you are a retailer and expect to make purchases for resale and meet the required qualifications. This certificate allows a retailer to make such purchases without paying the Maine Sales Tax on them. When the retailer applies for a sales tax registration, the retailer will be issued a provisional resale certificate provided the applicant expects to make \$3,000 or more in gross sales over the next year. You can apply online or download the Application for Tax Registration at www.maine.gov/revenue or call 207-624-5466.
- ✓ If necessary, contact the Maine Department of Labor, Bureau of Labor Standards to determine compliance with the **Occupational Safety and Health Act**. Telephone: 207-623-7900.

FEASIBILITY STUDY

Before you begin to write a business plan, you should conduct a feasibility study that will help you determine the probable success of your new business. The information will also be helpful once you do write the business plan.

There are three objectives that should be met by the feasibility study in order for the study to be of value. The first is to **learn more about your prospective customer's needs**. Once the needs of the customer are determined, the second objective is to clearly define the product or service that you wish to offer these customers. In other words, **find a need and fill it**. The third objective is to determine **how much revenue this product or service will generate**. A cash flow projection estimates the cash balance for the business on a month-to-month basis. Revenue and expense information is then incorporated in a cash flow projection, which gives you a financial measure of the feasibility of the venture.

It will be helpful to pose the following questions when determining what market research you need to do to meet the objectives of your feasibility study.

I. *Do prospective customers have a need for your product or service?*

- A. What segment of the population does your product or service appeal to?
- B. Are there enough people who want the product or service?
- C. What is the purchasing power of the population base?
- D. Will your chosen market continue to support your business?

II. *Will the business be able to compete?*

- A. Who are the competitors and how many are there?
- B. How well are the competitors doing?
- C. What are the strengths and weaknesses of the competitors?
- D. Where are the competitors located?
- E. What are the hours of operation of competitors?
- F. What advantages does your product or service provide?

III. *Is the proposed location of the business adequate?*

- A. How accessible is the location to the market population?
- B. What is the availability of labor in the area?
- C. What are the costs of obtaining, developing and maintaining the site?
- D. What are the current or future community developments?

Some basic market research needs to be performed to answer these questions with any degree of accuracy. There are primarily three types of research that can be utilized:

I. *Informal Research*

- A. **Canvassing**
This can be done informally by simply approaching potential customers or clients and discussing their needs regarding the product or service the new business will offer.
- B. **Observation**
Observing current businesses and potential customers can be a very insightful way of gaining valuable information into the market.
- C. **Word-of-Mouth**
Listening to people, such as potential suppliers, advisors, and people who are already in the business, is also a valuable tool.

II. *Secondary Data*

- A. **Newspaper articles**
Newspaper articles on established businesses, current issues affecting business, statistical and demographic information.
- B. **Public filings**
Annual reports, patents, copyrights, trademarks, business names.
- C. **Government agencies**
Local, state and federal government agencies such as the SBA (Small Business Administration), Chamber of Commerce and U.S. Census Bureau.
- D. **Commercial publications**
Telephone books (access information about who your potential competitors are through advertisements in the yellow pages and community information pages).
- E. **Trade journals**
These journals specialize in issues and trends affecting different industries, as well as other current information.
- F. **Trade associations**
The research departments at trade associations collect data on sales, expenses, shipments, stock turnover rates, bad debt losses, collection ratios, returns and allowances and net operating profits.
- G. **Public libraries**
A wealth of information on various topics related to business including laws, industry and market information, trade publications, etc.

- H. Commercial banks and financial institutions
Information about economic factors influencing communities.
- I. Internet
Access current information on marketing opportunities and connect with various government agencies, businesses, or sites for many of the sources listed above and more.

III. Primary Data – Surveys

Demographics, psychographics, geographic location, pricing, the most effective means of media for reaching your target market, household income, and if there is a need for your product can be determined through surveys.

- A. Personal interviews
Personal interviews with prospective customers are a great way to find out information about your product, competitors, pricing, and the market.
- B. Telephone surveys
Telephone surveys are very similar to personal interviews but are more anonymous.
- C. Written questionnaires distributed by mail or by other means
Written questionnaires may be a more cost-effective means of obtaining survey results, but response rates to unsolicited mailings are typically low.

COMMON BUSINESS ENTITIES

The following is a brief outline prepared by the Maine Small Business Development Centers of the various types of business entities.

It will introduce the new entrepreneur to very broad definitions of business entities. What is best for your situation may depend on a more in-depth analysis. If you have any questions regarding these forms of business entities, please call your local Maine Small Business Development Center and seek advice from an attorney and tax accountant.

SOLE PROPRIETORSHIP

DEFINITION: A business that is owned and usually operated by one person. It is not a separate legal entity; therefore, it may involve some ownership risk. Liability risk can be minimized through adequate insurance coverage. The owner, generally, is solely responsible for business risk. More businesses are operated as a proprietorship than in any other form (at least initially).

- ✓ Revenues and expenses are reported on Schedule C - which is a supplemental schedule of Form 1040 Individual Federal Tax Return.
- ✓ Taxes are based at the individual marginal tax rate.
- ✓ Income (revenue minus expenses) is subject to a self-employment tax of 12.4% (Old Age, Survivors, and Disability Insurance or OASDI) on the first \$132,900 (starting in 2019) and 2.9% (Medicare) with no cap of income.
- ✓ May be liable for filing 1040 estimates depending on circumstances.
- ✓ If the business employs outside help, you will be subject to other reporting requirements for both state and federal agencies.

PARTNERSHIP

DEFINITION: Similar to a proprietorship in most ways except that it involves more than one owner. A partnership is not a legal economic unit separate from the owners, but an unincorporated association that brings together talents and resources of two or more people. Partners share both liability and business risk. Additionally, each partner is personally liable for the actions of the other partner(s).

- ✓ Revenue and expenses are reported on Form 1065 (information only, no taxes paid).
- ✓ Each owner's share of income or loss is reported on his or her personal tax return subject to the individual marginal tax rate.
- ✓ Income is also subject to self-employment tax.
- ✓ If the business employs outside help, you will be subject to other reporting requirements for both state and federal agencies.
- ✓ Although not required, a partnership agreement is strongly recommended.

LIMITED LIABILITY COMPANY

DEFINITION: A limited liability company is one in which the members (owners) have a liability limited to their investment in the entity. It allows for structural flexibility in planning distributions and allocations. All members of an LLC can participate in the management, without risking loss of liability protection.

- ✓ No income tax at entity level; tax items passed through to members just as with S corporation shareholders and partners in partnerships.
- ✓ None of the ownership limits of S corporations in terms of numbers or types of owners (members)
- ✓ Governance and financial terms may be customized through operating agreement, subject only to tax constraints.

CORPORATIONS

SUBCHAPTER S

DEFINITION: Separate legal entity that provides shareholders with some limited liability and has non-tax attributes at the corporate level. S Corporations are regular corporations, whose shareholders have elected to be taxed under Subchapter S. To qualify a corporation must:

- (1) Have only one class of stock outstanding (voting rights may differ)
- (2) Have no more than 75 eligible shareholders (primarily individual estates and certain trusts)
- (3) Be an eligible corporation

To incorporate you must file an application with the Secretary of State and file a timely election for a Subchapter S corporation.

- ✓ S Shareholders are taxed much like partners and sole proprietors.
- ✓ Ordinary income and deductions are reported on Form 1120S (no taxes are paid) and each stockholder's share of the net ordinary income or loss and other items are reported on his or her personal return in the same manner as the partner's share is reported.

Because the shareholders (owners) that actively participate in the business are treated as employees, they are subject to payroll withholding requirements. The gross payroll is deductible in arriving at income or loss. Any residual income is divided among the shareholders and is subject to federal and state income tax, but not self-employment tax.

C CORPORATIONS

DEFINITION: A separate legal entity "in the eyes" of the Internal Revenue Service (IRS) and is taxed at the corporate rates, which differ from the individual rates. The C Corporation will have a double taxation effect, one at the corporation level and then one at the individual level upon distribution of dividends.

To incorporate you must file an application with the Secretary of State.

- ✓ Any distribution from the corporation to the individual, after the payroll deduction, is treated as dividends and is subject to state and federal income taxes, but not self-employment taxes.
- ✓ Income, expenses, gains and losses that affect taxable income are reported on Form 1120.
- ✓ Employer salaries are deductible corporate expenses that are subject to withholding requirements.

- ✓ Earnings can be retained (within limits) by the corporation and are taxed only at the corporate level.
- ✓ There are many other differences between a “C” and “S” corporation beyond the scope of this paper.

BUSINESS PLAN GUIDELINES

Every business venture can benefit from the preparation of a carefully written business plan. The purpose of the business plan is to:

HELP YOU THINK through the venture and ensure that you have considered all your options and anticipated any potential difficulties.

CONVINCE POTENTIAL LENDERS AND INVESTORS that you are in control of the project and that their money will be safe with you.

SERVE AS AN OPERATING GUIDE as you turn your ideas into a viable business.

What a bank looks for in a business plan

Since your business plan may be submitted to a bank, it is important to realize how a banker analyzes a business plan and what questions a banker asks 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 business to operate profitably. A banker does this by analyzing a number of things including:

- the nature of the business
- the purpose of the loan
- the amount of the loan
- the ability to repay the loan
- the collateral available to secure the loan
- the character and management skills of the business owner

To convince a banker (or any other investor) of the merits of a loan request, a borrower must present complete, 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.

The following pages provide a suggested outline of the material that should be included in your business plan. The final product should be tailored to fit the circumstances and personality of you and your business.

For a sample business plan & recorded tutorials explaining the different sections, please go to our website: www.mainesbdc.org.

BUSINESS PLAN OUTLINE

1. **Cover:** Name, address, and phone number of business. Give your plan a businesslike appearance by typing it on high quality paper and putting it in a vinyl or cardstock binder or a three-ring notebook. Also show the date of issue of the plan and type “copy number _____” so you can number and control the copies.
2. **Executive Summary:** A brief (one page) statement of the business plan objectives. Address the following questions and add additional information that will help you achieve your goals. (You may choose to write this page last.)
 - A. What is the purpose of this plan? Will it be used as:
 - An operating guide?
 - A financing proposal?
 - B. Why will the venture be successful?

For a financing proposal:

- Who is requesting the funds and how much is needed?
- What will the money be needed for? How will the funds be repaid?
- What collateral will be offered to secure the loan?
- Why does a loan or an investment make sense from the financier’s point of view?
 - impact on local economy
 - job creation
 - increased tax base
 - investment in the future of the community

3. **Table of Contents:** A single page showing major topics and page references
4. **Description of Business:** Answer as many of the following questions as are appropriate:
 - A. What business are you in?
 - Form of business: Sole Proprietor, Partnership, LLC, LLP, C-Corp, Etc.
 - Type of business: primarily merchandising, manufacturing, or service?
 - What is the nature of the product(s) or service(s)?
 - What will be special about your business?
 - B. What market do you intend to service? What is the total market, and what is your expected share? (Only briefly as you will get into more detail in the Market Analysis Section)
 - C. How can you serve the market better than your competition?
 - D. Present status of the business: start-up, expansion of a going concern, or take-over of an existing business?
 - E. If you will be doing any contract work, what are the terms? Reference any firm contracts and include them as supporting documents.
 - F. Do you have letters of intent from prospective suppliers?

For an existing business:

- G. What is the history of the business?
- H. What does the owner wish to see at this time?
- I. If the business is going downhill, why? How can you turn it around?
- J. How will your management make the business more profitable?
- K. What changes do you plan to make in the business?

Note: If yours will be a seasonal business, make sure the seasonality is reflected in your narrative and financial projections with appropriate footnotes.

You can also add the following topics:

Insurance: Describe your potential business risks and tell what insurance coverage you will purchase to protect yourself.

Licenses and Permits: State how you will be affected by local zoning regulations. What other licenses or permits will you be required to obtain? If you have begun permit or license applications, where are you in the process?

5. Location and Operations:

- A. What is your business address and why did you choose that location?
- B. Will the building be leased or owned?
- C. What are the terms and length of the lease contract?
- D. What renovations will be needed and at what cost?
- E. Describe the neighborhood (e.g., stable, changing, improving, deteriorating)
- F. What other kinds of businesses are in the neighborhood?
- G. How much can your business expand before you will be forced to move or add on to the present building?

6. Personnel: Write a paragraph or two about your personnel needs.

- A. What are your anticipated personnel needs?
- B. What skills must your employees have?
- C. Can you use part-time help to meet changing business volume?
- D. Will you have to train people, and at what cost?

7. Product and Services: This section is where you will get into greater detail about your product or service. How it operates etc. Do not get too detailed (specific designs, blueprints, etc. should go in the back of the plan in the appendix). It should be enough that the reader fully understands what you are offering (product or service).

This section should conclude with your proposed pricing. Competitor pricing will be discussed in the Competitor Section of the plan, so for now, you can simply state whether your pricing is high or low as compared to the market and is supported in the Competitor Section.

If you are higher or lower as compared to the market, describe what features or services will you offer that will justify your price? Superior quality? Low price point? Cheaper than alternative solutions (i.e. cost savings)?

8. The Market: Generally explain who needs your product or service and how you plan to reach them. (For a sample Marketing Plan please go to our website: www.mainesbdc.org).

- A. What is the present size and growth potential of the market? What is the trend of the industry over the past 3-5 years? (Sometimes it is helpful to go from a large/national outlook and work down to a local outlook).
- B. What percent of the market do you have now or hope to capture in the future?
- C. Describe age, sex, occupation, lifestyle, income, etc., of your various market segments.
- D. How will you attract and keep your segment of this market?
 - product quality
 - price
 - place
 - promotion
 - persuasion-personal selling

9. Competition: Briefly describe your competition and tell how their operations are similar and dissimilar to yours. Always follow up on any competitor strength with what your unique selling proposition is and how will you use it to control your market share. You should only present 3-5 strong competitors, keeping in mind that competition can mean a substitute or similar product or service and does not have to be a direct competitor. It is often helpful to note where, geographically, your listed competitors are in relation to your business.

10. Market Strategy: This section should describe how you plan to promote your business

- A. Identify method of selling products; direct, through distributors, retail chains, etc.
- B. What kind of marketing will be conducted? Identify costs.
- C. Website based marketing? Social Media? Word of Mouth? Print Ads? TV? Radio?
- D. Will you be attending conferences? Festivals? Etc.?

11. Management/Key Employees:

- A. What is your business and management experience? (Resumes should be put in the appendix)
- B. What education have you had, including both formal and informal courses that contribute to your managerial abilities?
- C. Are you physically suited to the job?
- D. Do you have direct operational and/or managerial experience in this type of business?
- E. Describe your organizational structure and include a brief description of who does what. (Include an organizational chart if necessary.)
- F. List proposed salaries and wages.
- G. What other management resources will be available (accountant, lawyer, Small Business Development Center)?

12. Risk Analysis

- A. What are some primary risks to your business & industry, and how would you overcome them?
- B. How easy is it to achieve your break-even point, and what kind of business interruption can you absorb before you're unable to pay back debt?
- C. What other revenue streams or changes could you make, if necessary?
- D. What collateral is available to liquidate & pay down debt, if necessary?

13. Financial Data:

- A. Source and Use of Funds Statement (This includes a list of equipment for start-up)
 - This Statement should clearly identify the proposed source of funds, including owner's cash, proposed bank financing, and funds from any other sources.
 - The Source of Funds should match the clearly identified Uses of the funds, which can include items to be purchased, contractor estimates, start-up expenses, and working capital (if applicable).
- B. Projected income statement
 - Detail by month, first year
 - Detail by quarter, second and third year
 - Notes of explanation and assumptions
- C. Cash flow projections
 - Detail by month, first year
 - Detail by quarter, second year
 - Notes of explanation and assumptions
- D. Projected balance sheet
 - Balance sheet on Loan Close date
 - Quarterly First Year Balance Sheet
 - Annual Second and Third Year Balance Sheet
 - Notes of explanations and assumptions
- E. Break-even analysis
- F. Ratios – This compares your business with the industry average
- G. For an existing business
 - Income statements
 - Balance sheets and/or
 - Tax returns for past three year
 - Current balance sheet and income statement (less than 90 days old)

Note: Personal Financial Statements of Principals with more than 20% ownership in the business should go in the appendix in the back

13. Supporting Documents:

- A. Personal resumes for all principals
- B. Personal financial statements for all principals
- C. Letters of reference
- D. Letters of intent from prospective suppliers or customers
- E. Copies of all leases, contracts, or agreements, deeds, or other legal documents
- F. A list of Reference Sources and Citations used in the Business Plan
- G. Any other information that might help your cause or answer potential questions

FINANCING YOUR BUSINESS

Funding a startup business may be the most difficult task you will encounter.

There is much to be said for “bootstrapping” your business (i.e. getting by with savings and money generated by the business). However, in many circumstances, this is not feasible and you may require outside assistance. Below is an overview of the different sources of funding. A Maine SBDC business advisor can help you figure out which source of funding is right for you and your business.

Funding First Steps

Most people immediately think of commercial banks when they determine a need for business financing. Unfortunately, as a source of start-up funding, banks end up far down on the list of likely sources. Instead, most small businesses are financed through private funding and other sources. Some of these sources include:

1. Personal savings
2. Loan from family or friends
3. Personal bank loan
4. Refinancing or a second mortgage on real estate or other assets

(Note: Sources 3 & 4 are generally contingent upon your having a regular source of income, i.e., a job; thus, if you plan to travel this route, you need to secure this financing while you’re still employed.)

5. Cash value of assets you could sell
6. Cash value of life insurance, stocks or bonds
7. Credit cards (possible but ill-advised)
8. Investments from partners
9. Advance payments from contracts (not a likely source)
10. Landlord Investment (possible in the event a fit-out cost is incurred)
11. Credit from suppliers

Your first step in evaluating any business prospect should be a feasibility study to determine the potential of your particular product or service. The cash flow projection is a basic piece of any feasibility study. In it you estimate revenues and expenses of your business, generally on a monthly basis, for a year or two. This analysis is important in that it will tell you (and your banker or investor) what amount of funds you will need to invest in the business to keep it running until sales reach a point where they will support the business. This analysis will also illustrate the burden placed on a fledgling business by borrowed funds and will assist you in making the difficult financing decisions. Be aware that banks vary in their aggressiveness over time and between one another and that bankers themselves vary according to their own background and experience. Thus, you must be persistent and willing to shop around.

SBA Loans

SBA offers a variety of loan programs designed for business owners who may have trouble qualifying for a traditional bank loan. For more information go to: www.sba.gov/loanprograms or call the Maine SBA office at: 207-622-8555.

Commercial Bank Financing

Many small business start-ups are inherently risky and commercial banks are traditionally risk averse. Bankers are neither investors in small businesses nor speculators, but they will lend money to a small business if its repayment is relatively assured. Commercial banks generally provide financing at comparatively low rates but in return expect a strict repayment schedule and detailed recordkeeping. ***Their main concern is whether or not you will be able to repay the loan in full and on time.*** The bank's lending officers look for specific criteria when evaluating your loan proposal. They will rate you on the following characteristics:

- **Experienced management** – Are you familiar with the business and do you know the industry?
- **Substantial investment** – Are you willing to make a substantial investment of time and money?
- **Strong credit history** – Have you borrowed similar amounts and repaid them in a timely manner?
- **Responsible character** – Can your references vouch for your honesty and good business sense?
- **Good collateral** – Do you have satisfactory collateral appraised high enough to secure the loan?
- **Adequate cash flow** – With the loan, will the business generate enough dollars to pay off the loan and then some?

Meeting the preceding criteria can be very difficult for a start-up business. Often one or more criteria cannot be met. It may be especially difficult to convince a banker that your projections of sales and cash flow are realistic. This can be accomplished but only by exhibiting extensive knowledge of the business and the market. The bank will expect to see a formal business plan, complete with pro-forma financial statements, and will expect you to complete a personal financial statement.

Loan Insurance/Guarantees

When all the bank's criteria have been met, the banker will look for additional means to secure the loan. This can be done through a variety of methods:

- **Personal guarantee** – First of all, **you will** be required to personally guarantee the loan. If your business fails, you personally will be responsible for repaying the loan.
- **Co-Signer** – If your ability to repay the loan – should the business fail – is in question, the bank may require that you find another person with the financial capacity to guarantee repayment.
- **SBA or FAME Guarantee** – The U.S. Small Business Administration (SBA) and Finance Authority of Maine (FAME) primarily assist small start-up businesses by providing commercial loan insurance. The first step, to take advantage of these programs, is to get a bank committed to your project – for it is a bank that will make applications to SBA or FAME. SBA or FAME will have similar requirements of you in terms of experience, character, credit worthiness, collateral and cash investment. The primary difference is that they may be willing to accept more risk than the bank in the name of promoting small business. (Note: Even if you do get a guarantee from SBA or FAME, these agencies will still hold you personally responsible for the debt.) Finally, guarantees do not mean low interest loans. The loan is made at the bank's current rate and a fee is charged by the guarantee agency.

Economic Development Lenders

There are a number of different economic development lenders across the state. Availability may depend upon where your business will be located and what type of business you are starting. The Maine SBDC business advisors may be able to recommend these sources to you. These lenders are generally

non-profit entities. You may hear the term “gap funding”. These lenders will oftentimes take more risk than a traditional bank and fill in the “gap” between what a traditional bank will do and what you need to make it work. These lenders still do normal underwriting but may be willing to take on additional risks beyond what the bank is comfortable with. They may also do all the funding you need if it is a smaller amount.

Angel Investors

An angel investor is a high net worth individual who provides capital to startups or entrepreneurs in return for equity or debt repayment.

- **Maine Angels** – Maine Angels help entrepreneurs by investing in and mentoring early-stage New England businesses, with an emphasis on Maine. For more information go to: www.maineangels.org.

Finance Authority of Maine

The Finance Authority of Maine (FAME) provides innovative financial solutions to help Maine citizens pursue business and education opportunities. Learn more at: www.famemaine.com or 207-623-3263.

Grants

Federal, state and local governments can, on occasion, offer financing programs to help small businesses start and grow their operations. These programs might include low-interest loans, venture capital, and economic development grants. For more information on grants, visit www.grants.gov.

Crowdfunding

Crowdfunding is used to fund projects or ventures by raising small amounts of money from a large number of people, and is typically done on the internet. There are two general types of crowdfunding – rewards-based and equity. There are hundreds of crowdfunding platforms so be sure to do your due diligence to choose one that fits best with your project/venture. In addition, check crowdfunding rules at Maine Office of Securities: www.maine.gov/pfr/securities or call 207-624-8551.

Venture capital

Venture capital is provided to high-potential, early-stage startup companies. Money typically comes from a group of investors who pool their investments into one venture capital fund. With venture capital, the investors own equity in the company it invests in.

- **Maine Venture Fund (MVF)** – MVF is a professionally managed venture capital fund that invests exclusively in Maine companies that demonstrate a potential for high growth and public benefit. For more information go to: www.maineventurefund.com or call 207-924-3800
- **CEI Ventures, Inc.** – CEI Ventures manages socially responsible capital funds. Portfolio companies are diversified by geography, industry, stage of business development and social benefits. For more information go to: www.ceimaine.org/investing/venture-capital or call 207-504-5900.

Maine Technology Institute

The Maine Technology Institute (MTI) is a private, non-profit corporation that provides early-stage capital and commercialization assistance for the research and development of technologies that create new products, processes and services, generating high-quality jobs across Maine.

MTI offers grants, loans, equity investments and services to support Maine's innovation economy. Visit their website for more information and to find out about their application, review and funding processes at www.mainetechnology.org or call 207-582-4790.

FREQUENTLY ASKED QUESTIONS

1. HOW DO I REGISTER MY SMALL BUSINESS?

Pg. 3

How you register your business depends on what type of business entity you choose and what activity you are going to be engaged in. If you decide to incorporate or become a limited partnership or a limited liability company, you will need to register that entity with the Bureau of Corporations at the office of the Secretary of State. That office can be reached at 207-624-7736.

If you organize your business as a sole proprietorship (a business owned and operated by an individual) or a general partnership, you do not need to register your business entity with the state. However, there may be certain state, city, or town permits or licenses that are required to operate your business (see question #3).

2. WHAT LEGAL FORM OF BUSINESS SHOULD I CHOOSE??

Pg. 8

There are four primary legal forms of business from which to choose from: sole proprietorship, partnership, Limited Liability Company and incorporation (both C-corp. and Subchapter S).

A **sole proprietorship** is owned by an individual (or a married couple) and it may have one or more employees. Operating a sole proprietorship means that the owner is personally responsible for all liabilities of the business. Also, the owner is taxed on a personal level for all profits generated by the business.

A **partnership** occurs when two or more people agree to share ownership of a business. This form of business allows the partners to share complimentary skills and resources. The owners share and pay personal taxes on the profits of the business. Additionally, each partner is individually responsible for the liabilities of the business.

Another option is to form a **Limited Liability Company (LLC)**. This legal form, which became effective in Maine on January 1, 1996, is a combination of the corporate form (providing limited liability) and the partnership form (allowing you to be taxed as in a partnership).

The **corporate entity** is created when your business registers with the Secretary of State's Bureau of Corporations. This enables the owners to take advantage of the limited liability aspect of the corporate ownership and to raise equity by selling shares of the company. For-profit entities have the option to choose either a **C-corporation** or **Subchapter S-corporation** status. If you become a C-corporation, the

corporate profits are taxed, and then the owners will be taxed on their share of the profits and compensation (i.e. dividends and wages) received from the corporation.

A **Subchapter S-corporation** does not pay a corporate tax. Instead the profits are distributed to the owners and are paid at the individual tax rate.

You can find more information about business entities in the "Common Business Entities" section of this Guide. If you have any questions regarding these forms of business entities, please call your local Maine Small Business Development Center and seek advice from an attorney and tax accountant.

3. DO I HAVE TO REGISTER MY BUSINESS NAME? HOW DO I DETERMINE IF THE NAME I CHOOSE IS OKAY TO USE?

Pg. 3

State statute requires that every business enterprise operating under an assumed name must register that name in the city or town in which it is located. This is often called filing a "D/B/A", which stands for "doing business as," and a nominal fee is typically charged. What you do beyond this depends on a number of factors.

If you incorporate, become a limited partnership or limited liability company, the name of the business would be registered with the Bureau of Corporations. To determine whether a name you're considering is in use by another corporation, or is protected by a trademark or service mark, you should contact the Bureau of Corporations at 207-624-7736 or do an online search at <http://www.maine.gov/sos/cec/corp>. Sole proprietorship names are not tracked by any one central agency. However, you can employ the following tactics to safeguard against using another business' name. Check telephone listings, your local library should have the regional directories or search at www.whitepages.com, do an online search or check for the name in the *Maine Business and Professional Directory*.

4. DO I NEED A BUSINESS LICENSE?

Pg. 3

The State of Maine does not license all businesses; however, your business may need state and/or local licenses or permits depending on the particular activity you are engaged in. Determine whether you need to obtain any state licenses or permits to operate your business. Business Answers, a program of the Maine Department of Economic and Community Development, has a One-Stop Licensing Center for all the information needed to obtain appropriate licenses for your business. This service can be reached at 1-800-872-3838 or go to the website: <https://www.maine.gov/portal/business/starting.html>. You should also inquire about local licenses and permits at your local town office or city hall.

5. DO I NEED A SALES TAX NUMBER AND HOW DO I REGISTER FOR ONE?

Pg. 4

If you sell tangible personal property, or provide certain fabrication, rental, or other particular services, you must obtain a sales tax identification number, also known as a resale certificate, by filing the Application for Tax Registration with the Maine Revenue Services, 207-624-5644. Download the Application or complete online from www.maine.gov/revenue under Tax Registration.

If wholesalers and retailers are reselling your product(s) you would not charge sales tax, but would provide them your sales tax number for a resale certificate. Additionally, you would not charge sales tax to consumers who purchase your product outside of Maine, although they would be responsible for a

use tax. Keep in mind that after you register, your sales, regardless if sales tax is charged or not, must be reported regularly to the State of Maine's Sales Tax Division.

6. CATALOG SALES AND INTERNET SALES

Pg. 4

A retailer which solicits sales through a catalog or internet web site is responsible for collecting sales tax in Maine if the retailer has a significant presence in Maine. Retailers registered in Maine selling goods to Maine residents must collect Maine sales tax since the retailer has a presence in Maine and the sale occurs in Maine. This is true regardless if the sale occurred in the retailer's store, if the goods are ordered over the telephone or if the goods are ordered through the retailer's homepage. If the retailer receives orders through mail-order or the internet from non-residents and the goods are shipped out-of-state, the sale is not taxable in Maine. If the retailer is not required to register in Maine, the sales are not subject to Maine's sales tax but the purchaser is subject to Maine's use tax on such a purchase.

7. HOW DO I FINANCE THE START-UP OF A SMALL BUSINESS?

Pg. 15

To determine financing needs, you should first prepare a business plan with a complete set of financial projections including a balance sheet, income statement, and cash flow statement. With a properly completed business plan, you will have identified your funding needs. Keep in mind that most small business start-ups are funded through personal resources including savings, equity or loans from family, friends or other investors, home equity loans, cash value of life insurance, or other personal resources. Banks will lend to some business start-ups if they are satisfied with your business plan, your level of equity investment, the collateral you have to pledge to the loan and your credit history and experience. If your request is denied, ask your bank if they would consider the loan with a guarantee from the Small Business Administration (SBA) or the Finance Authority of Maine (FAME). In addition, there are a number of local and regional economic development agencies that have revolving loan funds that you may apply for. A good source of financing information is Business Answers, 1-800-872-3838. Feel free to contact your local Maine SBDC office for help on writing business plans and assistance in finding the type of financing that best suits your business. For more information see the section on "Financing Your Business".

8. HOW DO I REGISTER TO BECOME AN EMPLOYER?

Pg. 3

To register as an employer, you need to obtain a federal Employer Identification Number (EIN) by filing IRS Application Form SS-4 which can be done online at www.irs.gov. You will also need to register for state income tax withholding by filing the Application for Tax Registration with the Maine Revenue Services, 207-624-5644. Download or complete the application online at www.maine.gov/revenue under Tax Registration.

Register for Worker's Unemployment Insurance with the Maine Department of Labor. You can register online at <https://maine.gov/reemployme> or contact the Maine Department of Labor at 207-621-5120 or division.uctax@maine.gov.

Have employees complete and keep in employer's files: Employee Withholding Certificate W-4 obtained from the IRS and Employment Eligibility Verification Form I-9 obtained from the U.S. Citizenship and Immigration Services. Obtain Worker's Compensation Insurance from your business insurance carrier. Maine employers are required to report newly hired or rehired employees to the Maine Department of Health & Human Services (DHHS) within 7 days. Contact DHHS Support Enforcement and Recovery at

207-624-4100 for more information. Obtain and post required labor posters. For more information on becoming an employer, hiring employees or to obtain labor posters, contact the Maine Department of Labor at 207-623-7900.

9. IF I AM SELF-EMPLOYED, HOW DO I REPORT MY TAXES?

Self-employed business owners are required to pay state and federal income taxes, Social Security, and Medicare based on the profits generated by the business. Profits in a proprietorship are determined before you draw compensation from the business (i.e. your draw or wages are not considered an expense of the business.) Once your liability for federal income tax and self-employment FICA exceeds \$500, you will need to deposit the tax payments to the IRS (whether this happens in any one quarter or combination of quarters.)

You can estimate and report your federal taxes by using the 1040-ES form, and your state taxes by using the 1040ES-ME form. You can also derive an estimate of your tax liability from your most recently completed Schedule C (profit and loss statement for a proprietorship) or by completing a monthly profit and loss statement. Be aware that if you don't deposit the appropriate taxes for any individual quarter, or for the year, the IRS can and will impose stringent penalties and interest.

For additional information on completing the forms or understanding the requirements, please call your local Maine Small Business Development Center and seek advice from a tax accountant.

10. WHAT TYPE OF INSURANCE SHOULD I OBTAIN FOR MY SMALL BUSINESS?

When you start your own business, there are various types of business insurance that should be considered essential and others that, while not essential, may be desirable and add to the security of a business. Most businesses will require some type of general liability insurance and many businesses obtain an "umbrella policy" that covers a variety of risks including personal property, liability, fire, theft, and medical payments.

If you have employees, you will need to obtain workers compensation insurance. Additionally, if your business owns or uses vehicles for business purposes, automobile coverage is necessary. Beyond this, what other forms of insurance obtained depends on what risks are incurred in operating your business, and what kind of supplementary coverage you want to employ to provide additional security for your business.

The following is a list of certain types of insurance that you may need to consider: Key Person Insurance, Flood Insurance, Fidelity and Surety Bonds, Boiler and Machinery Insurance, Product Liability, Business Interruption Insurance, Overhead Expense, Disability Insurance, and Life Insurance. The best course of action is to contact an insurance agent, or several agents, for a consultation regarding the appropriate types of insurance for you and your business.

ASSISTANCE

A list of resources, assistance and information for starting a business in Maine.

<p>Business Answers</p> <ul style="list-style-type: none"> - Information on licensing and permits - Information about starting a business in Maine 	<p>https://www.maine.gov/portal/business/starting.html Instate: 800-872-3838 Out of state: 800-541-5872</p>
<p>IRS FORMS</p> <ul style="list-style-type: none"> - SS-4: Federal Employer Identification Number - W-4: Employee's Withholding Certificate 	<p>www.irs.gov 800-829-3676</p>
<p>Maine Bureau of Corporations</p> <ul style="list-style-type: none"> - Protect business name with a Trademark or Service Mark - Incorporating, Limited Liability Company, Partnership filing 	<p>www.maine.gov/sos/cec/corp 207-624-7736</p>
<p>Maine Department of Labor</p> <ul style="list-style-type: none"> - Unemployment insurance - Required labor posters - Compliance with OSHA 	<p>https://maine.gov/reemploye Unemployment insurance: 207-621-5120 www.maine.gov/labor: 207-623-7900</p>
<p>Maine Revenue Services</p> <p>Application for Tax Registration for:</p> <ul style="list-style-type: none"> - State Sales Tax Number - Resale Certificate - State Income Tax Withholding 	<p>www.maine.gov/revenue 207-624-5644</p>
<p>Maine Small Business Development Centers</p> <ul style="list-style-type: none"> - No cost business advising to startup and existing businesses. - Training/seminars - Online business resources, tools, templates 	<p>www.mainesbdc.org 207-780-4420 or 800-679-7232</p>
<p>Support Enforcement and Recovery</p> <p>Maine Department of Human Services</p> <ul style="list-style-type: none"> - Report new hires, re-hired and terminated employees 	<p>www.maine.gov/dhhs/ofidser 207-624-4100</p>
<p>U.S. Citizenship and Immigration Services</p> <ul style="list-style-type: none"> - Form I-9: Employment Eligibility Verification 	<p>https://www.uscis.gov 800-375-5283</p>

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