

ALABAMA'S ANSWERS

# Starting Your Business in Alabama



# Welcome

This book is a product of the Alabama Small Business Development Center Network (ASBDC) and the Alabama Department of Commerce, Office of Small Business Advocacy to assist you in starting and maintaining a successful business in Alabama.

While no publication can answer every question for every kind of proposed business, we hope this publication can be a valuable resource to help you start your business.

The book references and/or directs you to most city, state and federal forms needed to start a business in Alabama. In addition, this SBDC publication provides answers to a host of other questions entrepreneurs may have.

However, *Alabama's Answers* is only one of many tools provided by the Alabama SBDC Network to help your business start, grow and prosper. To access the SBDC's no-cost consulting services and its no- or low-cost training programs or to learn more about how we can help you start your business, contact us at [www.asbdc.org](http://www.asbdc.org).

Thank you and good luck with your venture!

William C. Cummins  
Executive State Director  
Alabama SBDC Network  
The University of Alabama

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

## **The University of Alabama, Office for Research & Economic Development**

The University of Alabama and its Office for Research & Economic Development (ORED) are committed to enhancing the economic well-being of the state and the region. Its efforts focus on addressing the economic development needs of distressed and rural communities; building resource teams and programs around community development needs; and providing leadership that develops nontraditional and new mechanisms for economic development. The University's efforts to encourage and foster entrepreneurship are growing the number of start-ups and future inventors for state, regional and national economies. UA and ORED gratefully acknowledge the federal, state, local, and private sector partners whose support and cooperation further enhances the professional services delivered by the Alabama SBDC.

## ALABAMA'S ANSWERS

# Starting Your Business in Alabama

A joint publication of the Alabama SBDC Network and the Alabama Department of Commerce



**ALABAMA SBDC NETWORK**  
**The University of Alabama**  
Box 870396  
Tuscaloosa, AL 35487  
(205) 348-1582 or 1-877-825-7232  
[www.asbdc.org](http://www.asbdc.org)



**OFFICE OF SMALL BUSINESS ADVOCACY**  
**Alabama Department of Commerce**  
Alabama Center for Commerce  
401 Adams Avenue, Suite 610  
Montgomery, AL 36130-4106  
(334) 242-0400 or 1-800-248-0033  
[www.madeinalabama.com](http://www.madeinalabama.com)



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# 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 Department of Transportation—DBE, SBE programs, the Department of Revenue's Office of Taxpayer Advocacy, the Alabama SBA District Office, Women's Business Centers, Chambers of Commerce, Business Incubators and local economic developers.

For more information contact:  
Office of Small Business Advocacy  
Alabama Department of Commerce  
401 Adams Avenue; Suite 610  
Montgomery, AL 36130-4106  
(334) 242-0485 or 1-800-248-0033

<https://www.madeinalabama.com/business-development/small-business/>.



# The Alabama Small Business Development Center (SBDC) Network

Growing Alabama's Economy, One Small Business at a Time



The Alabama Small Business Development Center (SBDC) Network is a statewide program which provides no-cost management and technical assistance to small businesses in Alabama. With its professional business advisors and specialists, the Alabama SBDC provides existing and aspiring entrepreneurs with the expert assistance, tools, training and education they need to succeed. It operates ten offices with support from partners including four-year universities, federal agencies, the State of Alabama, and economic development organizations.

The Alabama SBDC Network is hosted by The University of Alabama and is part of the UA Office for Research & Economic Development. The Alabama SBDC is a resource partner of the U.S. Small Business Administration and is an accredited member of America's SBDC, the national association of Small Business Development Centers. Alabama SBDC member institutions include Alabama State University, Auburn University, Jacksonville State University, Troy University, The University of Alabama, University of Alabama in Huntsville, University of North Alabama, and University of West Alabama.

For more information, please visit [www.asbdc.org](http://www.asbdc.org).



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# Getting Started with a Self-Assessment

Starting a business is risky but understanding the risks and reducing them through careful planning can improve the chances for success. It's wise to be fully aware of the implications of owning your own business, including the effect it will have on you and your family. We recommend that you carefully analyze your reasons for starting a business and ask yourself how it will fit with your family and your lifestyle.

So, let's start off with some *self-assessment* sort of questions.

- Am I a self-starter?
- Do I have the discipline to maintain a schedule?
- Do I want to earn more money?
- Will this business earn more money from the beginning or do I need to be prepared to initially work for less?
- Do I want to be more creative?
- Do I have the necessary skills to be successful in this business?
- Am I looking for more flexibility in my work and family schedule?
- Will this business allow me to work the schedule I desire?
- Am I ready for different challenges and adventures?
- Am I prepared to respond quickly to the needs of my business?
- **Have I discussed this proposed business with my family?**
- Do I have the money needed to start my business and for initial operating expenses until I start earning a profit?

There are no right or wrong answers to any of the self-assessment questions. But honestly answering them can help guide your thinking and your hopes for starting your own business. And, again, perhaps the most important question is the next to last one on the list—***have you discussed your business idea with your family?***





# Business Start-Up Checklist

## 1 Prepare a Written Business Plan | pg 11

- Complete with financial statements

## 2 Decide Upon the Legal Structure of Your Business | pg 15

- Sole Proprietor
- Partnership
- Corporation
- Limited Liability Company

## 3 Define the Products or Services Your Business Will Provide

- Is there a need?
- Is the demand great enough?
- Who are your competitors?
- What is your competitive advantage?

**How to Choose Your Business Name?**  
pg 14

## 4 Develop a Financial Plan | pg 32

- Do you have adequate resources to support your business and you?
- What type of financing will your business need?
- What financing options are realistic?

## 5 Acquire Necessary Licenses and Permits | pg 20

## 6 Obtain Tax ID's and Determine Your Tax Obligations | pg 23

- Federal EIN (Employee Identification Number)
- State
- Local

## 7 Establish Your Bookkeeping System | pg 30

## 8 Select a Suitable Location

- Zoning issues
- Cost
- Customer Access

## 9 Assess Your Insurance Needs | pg 29

## 10 Check the Details

- Business Bank Account
- Utilities
- Technology Needs

## 11 Finally, Assemble Your Team | pg 39

- Banker
- Accountant
- Insurance
- Lawyer
- Technology
- ASBDC Advisor

*"Very good resource for getting started."*  
SBDC Client

# Business Entry Options

There are typically three avenues available when going into business: starting a new venture, buying an existing business, or purchasing a franchise. It is HIGHLY advisable to seek professional accounting and legal help before starting any business.

## Starting a New Venture

A new start-up is typically pursued when you have a unique idea that requires special equipment, specialized talents or a new way of doing things. The principal advantage of starting a new business is that you are in control of how you want your business to operate. There will be no negative history or track record to overcome, and you will be able to provide your product or service the way you

*“Our relationship with the SBDC team is invaluable.”*

think it should be provided. The principal disadvantage is the need

to start from scratch. Factors you need to consider when forming a new venture include legal structure, location, marketing and advertising, facilities, equipment, employees, taxes, a record system and capital.

## Buying an Existing Business

Buying an existing business can have its advantages. By purchasing a business that is already established, you may eliminate some of the problems associated with starting a brand-new business. However, when you acquire an existing business, you may also acquire its debts. Purchasing an existing business can be complex. The following is a brief summary of some of the concerns of which you should be aware.

- How successful is the business?
- How well known is the business?
- Why is the business being sold?

- Do you have a plan to keep (or make) the business profitable?
- Are you being given complete access to the business’s financial records and previous performance?
- How much are you willing/able to pay for the business?

## Purchasing a Franchise

Franchising offers a unique opportunity for individuals interested in operating a business. It allows the entrepreneur to both own and operate a business while drawing from the resources of the parent company. The arrangement may reduce some of the risks of going into business—depending upon the quality and stability of the franchisor. While fewer than five percent of all franchised businesses fail annually, success is not guaranteed.

It should be noted that while a franchise is a method for going into business, it is NOT a form of legal structure. The franchisor is the business making available a plan, product, process and structure. You—the franchisee—are a completely separate business. Each party in the relationship—the franchisor and franchisee—must determine their own appropriate form of legal structure.

## Franchise Support

The franchisor often provides a range of services to assist you, the franchisee, in starting and operating the business. Types of assistance vary depending upon the company. It is important that you fully understand and have documentation in writing regarding which services your franchisor will and will not provide. These can include, but not be limited to:

- Use of company trademarks, trade name, service mark.



- Site selection for your business.
- Training programs.
- Marketing/advertising support.
- Financial assistance—such as inventory, equipment and leasing.

## Before You Buy A Franchise

As with any business transaction, the franchisee needs to perform “due diligence”.

- Always ask for a disclosure statement.
- Compare similar franchise benefits and costs.
- Obtain a written contract specifying the exact terms of the franchise agreement.
- Make sure you thoroughly understand the franchisor’s operating policy.
- Consult with an independent professional—attorney, CPA or an SBDC advisor regarding the terms and conditions of the franchise offer before you sign.

## Make Sure to Ask These Questions!

- What are the total costs of the franchise?
- Does the franchise require any special skills?
- What are the ongoing fees and royalties?
- How much control will the franchisor demand over the operation of your business?
- Does the franchisor offer credit arrangements for the purchase?
- Can you terminate the franchise agreement? If so, at what cost?

# Financial Feasibility

A major reason for small business failure is an inadequate level of funding. As such, it is essential when planning to start a business that you have a clear and complete understanding of your financial resources. Otherwise, it will be virtually impossible to accurately determine the financial feasibility of your proposed business start-up.

- If seeking funds from outside you or your family, do you have a relationship with a lending institution? Or a possible investor?
- What is your current credit standing? Do you know your credit score? Have you recently reviewed your credit history?

## Household Budget

A good first step is a review of your household budget. Ask yourself the following questions.

- What is your household budget?
- How much money do you need to maintain your lifestyle?
- Will the business you propose to start financially fit your budget and lifestyle?
- Do you have a source of income until the new business starts to make money?
- If you plan on leaving a job to start the business, what salary do you need to make in the new business to pay your current living expenses?

## Funding the Start-Up

Whether you are able to provide some or all of the money to start your business or will need to obtain capital from other sources, there are specific questions you should ask yourself—and documents you will need to produce. Such as:

- What will it cost to start or purchase your business?
- How will you fund it?



### When starting the conversation about financing, have these basic items on hand:

- Personal Financial Statement (joint with spouse)
- Complete Copies of Personal Federal Tax Returns—previous three years is best
- Resumes of the Business Principals
- Personal Credit Reports for the Principals

**You can find more information about funding your business in *Financing Your Business* on page 32.**

*“Would not have been able to move forward without the SBDC.”*

# Marketing and Your Market

Marketing is the activity and methods for communicating your product and services to your customers and the overall marketplace. While the terms branding, advertising, promotion and marketing are often used interchangeably, each represents something different and useful to your business. Here are some brief definitions:

- **Branding** – The signaling through colors, symbols, styles, and words of your company as distinct from other companies.
- **Marketing** – The process of identifying your customer’s needs and determining how to meet those needs.
- **Marketing Strategy** – Your coordinated marketing efforts designed to promote and sell a product or service.
- **Marketing Plan** – A one-year description of specific actions including a timeline, budget and expected outcomes.
- **Advertising** – Your efforts in promoting a product or service through paid or unpaid channels.
- **Target Market** – The groups of consumers with shared features who buy your products/services.
- **Marketing Channel** – The medium you are using to market your product or service. For example, social media and billboards are two different marketing channels.

There are five tools in your marketing toolbox:

1. **Product** (or service) – What you sell.
2. **Price** – How you price your product: is your product a discount/value good, competitively priced, or a luxury item?
3. **Place** – Where you sell your products, online and off-line.
4. **Promotion** – Incentives to get customers’ attention – sales, BOGO, gifts.
5. **People** – Your relationships with your personnel, network, vendors, and suppliers.

Changing one or more aspects of how you market your business will change the marketing strategy. For example, if you start selling your goods at a farmers market—then move to a storefront—you will be exposed to different customers through foot and driving traffic.

*“Without the assistance of the ASBDC team, I would not be in business today! Invaluable resources over the last 3 years as I’ve grown my business.”*

Much of the content and information you use in marketing your business, products and services will come from you and your business. Therefore it is also important to have a solid understanding of what your competitors are doing and what your customers are seeking. All that information will add value to your overall marketing efforts.

## Learn About Your Target Market

When you start your business, you likely have an idea of who your customers will be. But the more closely you can define and identify your customers, the better chance you will have of selling your products or services to them. Therefore, conducting research to learn about your target market is important. The more you can learn about your potential customers, the better your chance for success.



Target market research can be done in several ways. Using a combination of methods is often best. Consider the following techniques:

### **Directly question your current and prospective customers.**

Otherwise known as a survey, the information you need will depend on what type of business and products you are offering. The information available from customers can be wide ranging. Of course, obtaining the information is highly dependent on the willingness of those being questioned to provide the information. Some possible types of information you can obtain include:

- Demographics—such as age, gender, location, income range and education level.
- Technology level—How do they interact with the marketplace? Phone, computer or in person?
- Purchasing habits—Where do they buy your product(s)? In store, on-line or third party?
- How do they view your product(s)? What features and benefits do they like—don't like—or do they even know?
- How did they find your product?
- Where else do they buy similar products?

### **Secondary Sources**

Asking customers directly is a great way to understand your current customers. But if you are just starting out and don't have or don't know who your customers are, you can start your market research online. Using on-line, no cost research sources is an effective way to learn about your potential product's niche in the marketplace. Here are a couple of places to learn more:

**Google Trends**—<https://trends.google.com/>

By using this site, you can see the popularity of various search terms related to your product or

service. You can research the location of the search terms and the time of year they are most often used. For example, and predictably, the search term “Christmas Tree” is most popular in early December of each year. Define search terms for your product(s) and learn how they are trending. Information obtained can add value to your marketing plan (see below.)

**ZIP Lookup**—<https://www.esri.com/en-us/arcgis/products/tapestry-segmentation/zip-lookup>.

Esri has done the hard work of dividing the US population into detailed market segments. A market segment is a group of people or companies who share one or more characteristics. For example, Tuscaloosa and Auburn are two geographic areas whose dominate segment is defined by college age consumers. Esri describes this segment as follows:

***We are busy studying, working part-time, socializing, and having fun with friends. We've used computers, the internet, cell phones, and MP3 players our whole lives. Because we tend to shop impulsively, we carry balances on our credit cards. Cooking is often limited to heating frozen dinners; fast food is always an option.***

If you were interested in selling a product or service to college students, the above information—available at no cost—can help you better understand your marketplace. Esri contains over 60 different market segments with a large amount of detail about each segment.

# Using Social Media

Over time, social media has become a nearly essential part of the marketing efforts for businesses of all sizes.

Many of the platforms (apps and websites) that comprise social media are well known. Facebook, YouTube and Twitter are just some of the familiar names and the users of those on-line sites number in the billions. The opportunities on social media are vast. But your marketing message could very well be lost or diluted if not properly managed.

Here are some tips for using social media to your best advantage:

- Find the platform or two that work best for your business and audience.
- Separate your business and personal social media accounts.
- Whatever platforms you pick, be consistent. Social media can be a rabbit hole. Discipline is key!
- As in any marketing effort, having a budget for time and effort applies.



What type of brand should you try to establish on-line? You want to be seen as a go-to-expert, not just a salesperson. This can be done by:

- Demonstrating a result of using your product or service.
- Sharing a story—the human-interest angle can often pay dividends.

Finally, remember that only about 20% of your social posts should be geared toward sales. Your goal should be to entertain and inform your social network.

## **Know Your Competition**

Every business has competition. The more you understand your competition, the better chance you have of attracting customers away from them. Determine—through observation, conversation and research—who the main players are in your market. Through your research efforts, try to answer the following questions about each key competitor:

- How similar are their products to yours—in terms of price, quality and availability?
- What market segments do they sell to?
- How do they sell their product(s)—in store, on-line, third party? Or all ways?
- What is the perception of their product in the marketplace?
- Are there visible gaps in market coverage?
- Do they have quality of product or service shortfalls?
- Who are their suppliers?
- What is their assessed resource level—i.e. financial ability to meet new competition?



Trade publications have a wealth of information about your industry. You can find them online (usually for a fee) or at your local library. These publications will feature trends in your industry, advertisements of your competitors, and insights into your target market. For assistance with market research, contact the ASBDC at [www.asbdc.org](http://www.asbdc.org).

When thinking through your strategy and channels, rely on your market research. Your customers will tell you how they like to shop and explore new brands. Examples of marketing channels include:

- Television
- Radio
- Billboards
- Direct mail
- Social Media
- Blogs
- Online marketplaces—some of many examples are Etsy and HomeAdvisor
- Amazon

Each channel will have a different fee structure. Use the channels, your market research, and your business budget to identify how much you can and should spend on marketing. Most small businesses spend far less than 10% of their business budget on marketing. And much like your business plan, as you market your business, never stop learning about your customers and competition—and continue to monitor and adjust your marketing efforts accordingly.

## **Develop a Marketing Plan**

A marketing plan will help keep your thoughts, research and expenses organized. Your marketing plan can stand on its own or be a section of your business plan. The foundation of a successful marketing plan is solid, reliable research backed by a quality product and excellent customer service.

### **A marketing plan has six elements:**

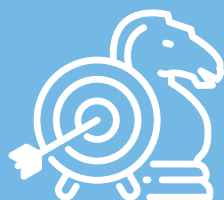
1. Business Description
2. Business Goals
3. Target Market
4. Market Strategy
5. Channels
6. Budget

# Your Business Plan

## Why Write a Business Plan?

If you don't know where you are going, how will you know when you get there? Researching and writing your business plan requires you to go beyond casually thinking about your business idea. It requires you to find information to support your "what if" thoughts. A well-written plan enables you to share your business idea with others—such as family, outside investors, lenders and customers. An effective plan:

- Helps you focus your ideas and helps determine if the idea is feasible
- Creates a track to guide your business in its early stages
- Establishes benchmarks to help you measure your progress
- Is essential for sharing with potential funders of your business idea



**A Solid, Well Researched  
Business Plan is Essential  
to The Success of Any  
Business and Requires an  
Investment of Substantial  
Time and Resources.**

## What Should Your Business Plan Look Like?

Business plans come in all shapes and sizes.

The final look and content of your plan will depend greatly on what type of business you are trying to start or grow. That said, all business plans share some common elements and a basic structure that are necessary to fully tell the story of your business idea. Any basic business plan outline typically includes the following:

**Who Should Write  
Your Business Plan?**

**YOU**

**Need help?  
Contact the SBDC.  
[www.asbdc.org](http://www.asbdc.org)**

### Executive Summary

A summary of the key elements of your plan. It should be concise and persuasive and should compel the reader to dig deeper into the document. A well-crafted summary will highlight a description of your business, your target market, your management team and the key financial numbers contained in the plan—including your funding needs. Finally, keep in mind you will write the executive summary last, after all the other pieces of your plan have been put together.

### Business Description

In simplest terms, what are you going to sell and how is it unique? Detail here matters. Exactly what will you sell? A single product or a line of goods? Are you selling to end users or operating as a wholesaler? Or, are you also producing/manufacturing what you sell? Other key topics to consider and describe are:

- What are the unique qualities of your product?

- How will you distribute your product or services?
- What competitive advantage(s) does your business possess?
- What form of legal structure does/will your business operate under?
- How will you market your business? How will your customers learn about your product?
- Where will the business be located? Is there an advantage to this location?

### **Your Target Market**

Who do you think will buy your products or services? Markets can be broken down in any number of ways. By age, income level, by location, by education or a multitude of other variables. The product or service you are selling will appeal to some certain slice of the overall marketplace. The closer you can define your specific buyer, the greater your chance of success.

### **The Competition**

Understanding your competition is vitally important. Why?

If you do not understand what other businesses are doing and how they are doing it in your market space, how will you take business away from them?

All solid plans display a full understanding of the competition. What they sell, how they sell, what is THEIR competitive advantage and what are their weaknesses. Ask yourself—how does my business match up?

*“My advisor made starting my business less scary and encouraged me and gave me confidence to do it all myself.”*

*SBDC Client*

Experienced reviewers of business plans will often focus on the plan’s competitive analysis and who is part of the management team. Those two parts of the plan reveal if the entrepreneur understands the business and whether the people involved can execute the plan.

## **No-Cost Market Research Sources**



<https://www.census.gov/data/data-tools/cbb.html>

The Census Business Builder is a suite of services that provides selected demographic and economic data from the Census Bureau tailored to specific types of users in a simple to access and use format.

<https://www.city-data.com/>

Informative profiles for every city in the United States. Gathered from a variety of government and private sources, information can be found on topics from crime rates to weather patterns.

<https://www.esri.com/en-us/arcgis/products/tapestry-segmentation/overview>

Tapestry’s zip code look up function will provide you demographic and lifestyle insight into your business location and/or target market.

See page 7 for more information.



## Market and Industry Research

It is important to identify your precise target market as closely as possible. But what is also of value is demonstrating a solid understanding of the wider market in which you operate. Your market can be defined geographically or by type of consumer or any other number of market definitions—such as NAICS code. In addition, it is important to know what are the latest trends in your chosen business. Industry trade journals, business association resources and numerous other databases and general on-line publications can be used to build—and display—a professional level knowledge of your business’s market landscape.

## Your Management Team (and it could be just YOU)

This is likely the most important portion of your plan. Possible investors or customers or hoped for lenders will want to know if you and others in the business can **execute** the plan? Does your management team possess the knowledge, skills and abilities—plus experience—to achieve the plan’s stated goals? It is important to provide examples of involvement in previous successful businesses or evidence of key technical skills or unique industry knowledge.

## Financial Projections

Your business idea needs to add up. There are several estimates and financial projections that should be provided to demonstrate the financial viability of your plan. These would include:

- Capital Equipment—for permanent fixtures, heavy equipment
- Other Projected Start-up Costs—such as salaries, inventory, rent
- Cash Flow Projection—in detail by month for two years out
- Balance Sheet—what you own and what you owe

- Profit and Loss Projection—which is not the same as cash flow
- Funding/Loan request—how much, how it will be spent, how you will pay it back
- Sources and Uses Worksheet

A breakeven analysis allows you to demonstrate when your business will reach its breakeven point—when sales will reach a level to cover expenses.

A basic breakeven formula to use:

$$BE = FC / (P - VC)$$



BE=Breakeven

FC=Fixed Costs (costs that remain constant over time such as rent and salaries)

P=Price (money received for your product or service)

VC=Variable Costs per Unit (costs that vary directly with sales such as labor and materials)

## Supporting Documents

Here you provide the documents and research to support your plan. Resumes of the owners, product reports/pictures, letters of support, intellectual property documents, credit reports, copies of relevant leases and any other material that will substantiate your business plan and goals.

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To obtain a more detailed business plan template, go to <http://asbdc.org/start-ups/>.

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# Naming Your Business

A great business name takes two aspects into consideration: legal and marketing. On the legal side, you want to consider who may already own the intellectual property rights to the name. Does someone in Alabama already use the name? Does someone in Alabama already use the name for a similar product or service? Does another company in the US already use the name? If another company outside Alabama uses the business name, you are legally allowed to register the name with the Secretary of State. However, you may be at risk: the other company can require you to change the name if they feel you are hurting their brand or profits. You should check the availability of the name by searching the following locations:

## Secretary of State's Name Reservation Database

<https://www.alabamainteractive.org/sos/welcome>

## Secretary of State's Trademark and Trade Name Database

<https://www.sos.alabama.gov/search/node?keys=Tradename+>

## US Patent and Trademark Database

<https://www.uspto.gov/trademark>

In terms of marketing, a good place to start is by searching the internet for companies with similar names. You don't want your customers ending up on your competitor's website because they misspell your business name! This is also a good chance to check out how your competitors name their businesses. Do they include the owner's name in the business name? Is it an abstract term or made up word? Do they use an industry specific term in the business name such as "logistics" or "HVAC"? Additionally, you'll want to check to make sure your business name is available on all the marketing channels you plan to use—the URL for your website, a Facebook Page, Instagram and/or Twitter handles.

Finally, getting feedback is important. Ask yourself the following:

- Does the business name sound professional?
- Is it too long?
- What do family and friends think?



*"I wish more people knew this program existed! It really sets you up for success. I am so glad I stumbled upon it."*

*SBDC Client*

# Choosing Your Legal Structure

Once you have decided to start your business, you must decide what type of business entity to use. Choosing the most appropriate business entity for your business is a complex process. Legal and tax implications must be taken into account as well as other key considerations such as:

- Your ability to raise capital.
- The amount of legal liability you are willing to take on.
- The amount of control you would like to have over your business operations.
- What is your estimate of the future growth of your business?

To repeat, making the correct choice can be complicated and at times confusing. ***It is strongly advised that you seek out qualified advice from an attorney and accounting professional to help you with the decision.***

## Four Basic Legal Structures

There are four principal forms of business structure. Your choice of entity should be based on your specific circumstances, goals and needs. Each of the forms has unique advantages and disadvantages. Again, it is highly recommended you seek professional advice when deciding. The four basic structures are:

- The Sole Proprietorship
- The Partnership
- The Corporation
- The Limited Liability Company

## 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 to obtain the licenses and/or permits to begin operation. For tax purposes, the sole proprietorship is a disregarded entity, meaning the United States Internal Revenue Service (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 (Alabama included), 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 broad 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 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.

### **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

**If you are doing business as a Sole Proprietorship or General Partnership, Alabama does not require you to file a Doing Business As (DBA) or Trade Name. If you want to protect your Trade Name, you can do so through the Alabama Secretary of State.**

## **The Corporation**

A corporation is a distinct legal entity. In other words, it is separate from the individuals who own it. For that reason, and others, the corporation is the most complex of the four basic business structures.

There are two types of corporations—the C-Corporation and the S-Corporation. Both types are usually formed by the authority of a state government. 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 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 small corporation that has elected “S-Corp” tax status. The “S” refers to Sub Chapter S of the Internal Revenue Code. By choosing S status, a business will receive limited liability protection and a pass-through taxation benefit. While C-Corporations are double taxed—the corporation first pays income tax on its earnings and then shareholders pay income tax on dividends they receive. S-Corps are exempted from this double taxation—earnings are taxed only at the shareholder level.

S-Corps are managed by directors or officers and must follow the same formalities and record keeping procedures as traditional corporations. To

***“I inquired about how to get minority and women’s certification. The advisor instructed me on the process and how to apply.”***

*SBDC/PTAC Client*

qualify for S-Corp status, all owners must agree to S-Corp election. The S-Corp must only have one class of stock, meaning that income, losses and other tax attributes are allotted among stockholders in proportion to their stock ownership. Ownership cannot exceed 100 shareholders and is limited to United States citizens or residents. A corporation may not be a shareholder.

## ***Liability protection with an S-Corp is not guaranteed.***

Like traditional corporations, S-Corps require scheduled director and shareholder meetings, minutes of meetings, updated by-laws and records maintenance (regardless of the number of shareholders.) Failure to maintain corporate formalities may allow the plaintiff in a lawsuit to “pierce the corporate veil” and go after a shareholder’s personal assets.

## **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 Corporations cannot own more than 80% of any other corporation
- With some exceptions, 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)**

A Limited Liability Company is a hybrid entity that, if properly structured, provides the limited liability features of a corporation and the beneficial tax efficiencies of a partnership. As in a partnership, control of the LLC is vested in the members (owner.) An LLC operates as a pass-through entity, with all





profits and losses passing through the business to the member thereby avoiding double taxation. An LLC can have one or multiple members. It can be member-managed (the owner runs the company) or manager-managed (managing responsibility is delegated to managers who may or may not be owners). If you plan to be manager-managed, you should discuss filing requirements with your attorney.

Forming an LLC creates a business entity, not a tax status. An LLC with a single member can choose to be taxed as a C-Corp, S-Corp, or to have the entity disregarded and be taxed directly as the individual. An LLC with two or more members may elect to be taxed as a C-Corp, a partnership, or an S-Corp. Single-member LLCs that have elected to be treated as a disregarded entity for federal income tax purposes are not subject to Alabama income tax. Switching from one tax election to another may have monetary consequences.

### **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

# 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. If you have questions about the process, contact your local SBDC. 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. For all domestic entities wishing to file via paper or online, go to the Secretary of State’s website [www.sos.alabama.gov](http://www.sos.alabama.gov)—Services—Business Entities—Online Services. A fee is associated with this request.

2. After receiving the Certificate of Name Reservation, you are ready to form the legal entity (If you are already logged in from filing for your Name Reservation, just click to continue.). For all domestic entities wishing to file via paper or online, go to the Secretary of State’s website [www.sos.alabama.gov](http://www.sos.alabama.gov)—Services—Business Entities—Online Services. A fee is associated with this request.

Additional forms can be obtained and answered by going to [www.sos.alabama.gov](http://www.sos.alabama.gov) and clicking on the Services tab and the Business Entities in the Quick Links box. Many questions are answered by the information provided under various entity types under the Business Entities page on the website. If you have questions that are not answered on the website contact:

*“The Alabama SBDC is a fantastic resource for business development...”*

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

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”

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**This material is provided for informational purposes only and not for the purpose of providing legal advice. You should contact your attorney and accounting professional to obtain advice with respect to the selection and formation of a business entity.**

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# Licenses and Permits

Your business is unique. The licensing and permits needed to operate your business legally will vary. However, all Alabama businesses are regulated by state, county and local/municipal laws. Most businesses are required to obtain a state business license, a county license and local/municipal license. In general, you can obtain information—and YOUR needed licenses and permits—by contacting the following:

- Alabama Secretary of State
- Your County's License Office
- City Hall (if your business is located within a municipality)
- City Business License Department

Prior to contacting any of the above offices, it will be helpful (and necessary) to have the following information in hand:

- Name of Company
- Type of Business
- Type of Legal Entity
- Owner's Name
- Mailing Address
- Physical Address
- Local Phone
- Email Address
- Federal Employee Identification Number (EIN)

## Determining Your Necessary Licenses and Permits

There are several questions and factors to consider when defining your licensing and permitting requirements. Consider the following:

### ***What type of business are you planning to open?***

A retail business will have different licensing and permit requirements than a construction firm—as will a service firm or any number of other “types” of businesses.

### ***Is there a regulating body for your industry and does it require any special certifications or permits for you to operate your business?***

Tradespeople such as plumbers or salon operators are required to have special certifications and/or professional licensing to operate. These sorts of licenses are apart from the “business” licenses required.

### ***Is your business going to operate from one location—or in multiple locations?***

Will your business operate outside your county? Will it operate in multiple counties? If it operates outside your home county, will employees be providing trade services—such as electrical contracting work—on location in that county? Or will they merely be delivering your product(s) in that county.

Talking with your state/local licensing officials about these types of questions will help clarify your licensing needs—both in your home county and elsewhere.

### ***What legal structure will your business operate under?***

There are four basic legal structures that all businesses operate under. Sole proprietorship, partnership, corporation and limited liability company (LLC). The structure you choose to operate under plays a role in what type of license you will need.

*As with all matters involving your choice of legal structure and its impact on your licensing needs, we strongly advise you to seek professional advice from an accountant and/or an attorney.*

## State Licensing/Permitting Process

State/County business privilege licenses are issued by the county Probate Judge or License Commissioner in the county where the business is located. A privilege license is a license requirement of every person, firm, company or corporation engaged in any business, vocation, occupation or profession described in the **Code of Alabama, Title 40, Chapter 12**. Unless otherwise provided, a license is required in every county where business is conducted.

The State of Alabama Department of Revenue provides a business licensing and permitting website. You can access the site here:

<https://revenue.alabama.gov/business-license/business-licensing/>

Also, on the Department of Revenue site you will be able to access their **Quick Reference Guide**. Another important place to find information regarding various permit requirements is the **Code of Alabama, Title 40**.



**You can view the videos provided by the Alabama Department of Revenue to learn more about the licensing and permitting process.**

- Business License Essentials
- Defining Business Privilege Licenses
- Business License Frequently Asked Questions



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**Alabama Department of Revenue**  
**Sales & Use Tax**  
**Business Tax Division**  
**P.O. Box 327550**  
**Montgomery, AL 36132-7550**

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## County Licensing/Permitting Process

Each county has the right to regulate the businesses in their county. Keep the following in mind when starting your local licensing/permitting process:

- State/County Licenses are obtained from the same place, either the Probate Judge or License Commissioner in the county where the business is located.
- County officials determine what local licenses and permits are necessary. One business may require several different business licenses depending on the services offered or products sold by the business.
- Sometimes the state will not require a license, but the county will.
- The license must be renewed annually in October and is delinquent November 1st.



## Municipal Licensing/Permitting Process

Municipal business licenses must be purchased and renewed annually. A key factor in the issuance of city licenses is whether you have obtained the proper local permits for your business. Different cities may have different licensing/permitting requirements.

Typically, the license will not be issued prior to obtaining the permits. A sample of possible permits required—but not limited to—include:

- Zoning
- Fire Marshall
- Sign Permit
- Health and Safety
- Environmental

## Board or Agency Licenses

Depending on your chosen business, other boards or agencies may be required to “sign off” on a location for you to obtain a city business license—and/or accept customers at your location. For example, salon operators will be required to have a “Personal License” for each salon worker (stylist) and will likely require a “New Shop” license for the business as a whole.

There are many similar examples in all variety of trades and services. Typically, these sorts of permits will need to be prominently displayed and are required to be renewed regularly.

There are many regulatory boards and associations in Alabama. To learn more about the permits and licenses you will need to operate your business locally, access the following resources:

- [https://revenue.alabama.gov/wp-content/uploads/2017/05/Boards\\_Agencies.pdf](https://revenue.alabama.gov/wp-content/uploads/2017/05/Boards_Agencies.pdf)
- Alabama Department of Revenue’s Quick Reference Guide
- Code of Alabama, Title 40
- Check with your local city business license office



**The permits YOU need will totally depend on your business and industry. The process starts by checking with YOUR city’s license office.**





# Taxes

Opening your business will automatically trigger federal, state and local tax obligations. Its tax obligations and reporting requirements will be unique.

The taxes you will need to account for, collect and forward to various agencies will depend on the type of product/service you provide, where you are located, how many people you employ and how you deliver your product or service. It will also depend greatly on what type of legal structure you operate your business under.

Maintaining and updating your financial records is essential for your business. Accurate recordkeeping is **critical** for tracking, reporting and forwarding your various tax obligations.

***To fully address your potential tax reporting requirements, it is highly recommended you seek out professional advice from a qualified accountant and attorney.***

**Alabama Society of CPAs  
1041 Longfield Court  
Montgomery, AL 36117**

**PO Box 242987  
Montgomery, AL 36124-2987**

**Instate toll free (800) 227-1711  
Phone (334) 834-7650  
Fax (334) 834-7603  
[www.ascpa.org/](http://www.ascpa.org/)**

To repeat, your tax obligations and reporting requirements will depend on your type of business, its operating legal structure, the products/services it provides and its location. The following is a list of possible—and a few certain—taxes your business will be required to report and forward. ***Again, it***

***is strongly advised you seek out professional counsel regarding which tax obligations apply to your business.***

## Federal Taxes

### Income Tax

Your federal tax reporting obligations are dependent on a multitude of factors. Internal Revenue Service (IRS) forms and publications you will need can be accessed and downloaded at [www.irs.gov/businesses/small-businesses-self-employed](http://www.irs.gov/businesses/small-businesses-self-employed)

### Estimated Taxes

Estimated taxes are paid on income that is not subject to withholding. The IRS requires estimated tax to be paid quarterly, typically in four equal installments. Learn more at: [www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes](http://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes)

### Self-Employment

Self-employment is a tax consisting of Social Security and Medicare taxes primarily for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of most wage earners. The current self-employment tax rate is 15.3%.

Learn more at: [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)

## State of Alabama Taxes

Contact the Alabama Department of Revenue's Taxpayer Service Center in your area or visit [www.revenue.alabama.gov](http://www.revenue.alabama.gov) to determine what state and local taxes apply to your business.

## Income Taxes

Alabama tax reporting obligations are dependent on a multitude of factors. Alabama Department of Revenue (ADOR) forms and publications you will need can be accessed and downloaded at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

## Estimated Taxes

Estimated taxes are paid on income that is not subject to withholding. The Alabama Department of Revenue (ADOR) requires estimated tax to be paid quarterly, typically in four equal installments. Learn more by calling ADOR at 334-242-1170.

## Business Privilege Tax

If you formed an entity with the Alabama Secretary of State you will be responsible for filing an initial Business Privilege Tax (BPT) Return within 2½ months of the filing date. You must also file an annual BPT even if you have no revenues. Learn more by calling ADOR at 334-353-7923.

## Sales and Use Tax

Applies to all businesses which sell tangible personal property to the end user or the consumer. The tax is due monthly, with returns and remittances to be filed on or before the 20th day of the month for the previous month's sales. Learn more by calling ADOR at 334-242-1490.

## Consumers Use Tax

Due when merchandise is purchased for use inside Alabama and tax is not paid to the seller. It is the responsibility of the purchaser (individual and/or business) to self-assess and report the tax due. The tax is due monthly, with returns and remittances to be filed on or before the 20th day of the month for the previous month's purchases. Learn more by calling ADOR at 334-242-1490.

## Rental Tax

Applies to the lease or rental of tangible personal property (e.g. vehicles, garments, linens, etc.).

The tax should be remitted monthly by the 20th of each month following the month in which the tax accrues. Learn more by calling ADOR at 334-242-1490.

## Local Taxes

Contact the local revenue departments where your business operates—either in its home location or in other municipalities or counties—to determine your tax obligations.

## Property Taxes

You may be responsible for paying business personal property taxes and/or real property taxes on all property owned by the business, even if you are a home-based business. This is typically due retroactively every October 1st and delinquent after December 31st. Learn more by calling your local revenue department(s) or by visiting [www.oppal.alabama.gov/](http://www.oppal.alabama.gov/).

## Sales and Use Tax

In addition to the state sales tax (see above), local sales taxes are also due, and these rates vary. Contact **ALL** counties and municipalities in which you do business in order to determine if you should register with them to collect their local tax. The tax is due monthly, with returns and remittances to be filed on or before the 20th day of the month for the previous month's sales. Learn more by contacting the appropriate local/county revenue department or by calling ADOR at 334-242-1490.

### Pro Tip:

A taxpayer may elect to file and pay state sales tax on a calendar quarter basis when the total state sales tax for which the taxpayer is liable averages less than \$200 per month during the preceding calendar year. The election to file and pay quarterly shall be made in writing to the ADOR no later than February 20th of each year.

## **Rental Tax**

Applies to the lease or rental of tangible personal property (e.g. vehicles, garments, linens, etc.). The tax should be remitted monthly by the 20th of each month following the month in which the tax accrues. Learn more by contacting the appropriate local/county revenue department or by calling ADOR at 334-242-1490.

## **Lodgings Tax**

Applies to the lease or rental of tangible personal property (e.g. hotels, motels, etc.). The tax should be remitted monthly by the 20th of each month following the month in which the tax accrues. Learn more by contacting the appropriate local/county revenue department or by calling ADOR at 334-242-1490.

## **Consumers Use Tax**

Due when merchandise is purchased for use inside Alabama and tax is not paid to the seller. It is the responsibility of the purchaser (individual and/or business) to self-assess and report the tax due. The tax is due monthly, with returns and remittances to be filed on or before the 20th day of the month for the previous month's purchases. Learn more by contacting the appropriate local/county revenue department or by calling ADOR at 334-242-1490.



## **When you are an Independent Contractor...**

- You are responsible for setting aside and paying your own income tax and self-employment tax (effectively the employee's and the employer's share of Social Security and Medicare taxes). The businesses you work for do NOT withhold or pay taxes on your behalf.
- You are not eligible to collect unemployment insurance benefits.
- You are not covered by workers' compensation insurance benefits unless you purchase a policy from an insurance carrier.
- The businesses you work for are required to give you a Form 1099 MISC if they have paid you \$600 or more during the year.
- You may deduct business expenses on Schedule C of your income tax return. You may also depreciate the cost of most business assets.







## Tax Numbers

### Federal Employer Identification Number (EIN)

Every person who pays wages to one or more employees and who has not previously secured an **Employer Identification Number (EIN)** must file with the Internal Revenue Service for an EIN. The application must be filed by those who wish to pay wages on or before the seventh day after the date on which your business begins. Your EIN will also be needed for use on Alabama tax forms as well as many other types of important forms—such as business licenses and loan applications. Learn more at [www.irs.gov](http://www.irs.gov).

### Alabama Sales Tax Numbers

Anyone who sells tangible personal property to an end user and collects sales tax must have an Alabama Sales tax number. Learn more at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

### 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 ADOR. Learn more at [www.revenue.alabama.gov](http://www.revenue.alabama.gov).

## State Unemployment Compensation Tax Number

The unemployment compensation tax number is a requirement in order to report your quarterly wages paid to employees. Learn more at [www.labor.alabama.gov](http://www.labor.alabama.gov).

The definitive document for business taxes in the State of Alabama is the “General Summary of State Taxes.” It is published by the Alabama Department of Revenue and can be accessed at:

<https://revenue.alabama.gov/wp-content/uploads/2019/11/2019-General-Summary.pdf>.

It is strongly advised you seek out professional counsel regarding which tax obligations apply to your business.

# Employee or Independent Contractor?

Most individuals who work for you will be considered either common law employees or independent contractors. There are many state and federal laws that are used to define an employment relationship and to determine whether an individual who performs services for you is an “employee” or an “independent contractor.” Consider the following factors when assessing your situation.

## Common Law Employees

Common law employees are individuals who perform services subject to the **control** of an employer regarding what, where, when, and how something must be done. The actual working relationship between an individual and a business is more important than the title. It does not matter that the employer gives the employee substantial discretion and freedom to act, so long as the employer has the legal right to control both the method and results of service.

## Independent Contractors

Persons who follow a trade, business, or profession such as lawyers, accountants or construction

contractors who offer their services to the general public are usually considered independent contractors. The key characteristic of an independent contractor is the worker’s “**independence.**”

An independent contractor relationship is a business-to-business relationship; it is NOT a business-to-individual relationship.

As a general rule, any individual who performs services for pay for another is deemed to be an employee, unless it is shown that the worker is free

from control and direction in the performance of the services and is customarily engaged in an independent trade, occupation, or business related to the service performed. **The burden of proof is on the employer to show that the above two tests are met.**

*“I’m glad to know a service like this exists. It’s been very helpful in gaining information and resources as a new government contractor.”*

*SBDC/PTAC Client*

Here are some additional criteria used by the IRS in determining whether a worker is an employee or an independent contractor:

Employee	Independent Contractor
An employee has no potential for suffering a monetary loss in connection with the work performed	An independent contractor can make a profit or suffer a loss in connection with the work performed
An employee works on the premises of the employer or on a route or location designated by the employer	An independent contractor may perform work at her/his own business premises
An employee performs services personally	An independent contractor may subcontract all or part of a work assignment
An employee may have assistants who are paid by the employer	An independent contractor hires, supervises and pays for his/her own assistants



When using an independent contractor, consider using a written document or contract that:

- Is signed by both parties
- Clearly discloses that the independent contractor is not entitled to unemployment insurance or workers' compensation insurance
- States that the independent contractor is obligated to pay all federal taxes and state taxes on any money earned pursuant to the contract
- Provides that the person for whom the services are performed does not require the individual to work exclusively for the person for whom services are performed

The Internal Revenue Service Publication 15-A “Employer’s Supplemental Tax Guide” has information to help you make the proper determination. You can access the IRS publication at <https://www.irs.gov/publications/p15a>.

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**It is recommended you seek out professional advice from a qualified accountant to help you make the proper determinations regarding your employees’ status.**

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# Insurance

It is impossible to know what the future holds for any new business. That is why insurance coverage of various kinds is vital (and often legally required) for your business. The list of things that you may need to insure for or against is extensive, but some of the most common insurance needs are listed below. Consult with a qualified insurance professional to learn which coverage(s) best suits your needs. Always read and understand the terms of your various insurance coverage policies.

Possible insurance coverage for your business could include:

## General Business Liability

The broadest form of coverage that can protect you against losses when injury, damage or even death results to another person or their property because of business negligence. Your obligations in these types of situations can be extensive and extend beyond those which you may assume—such as medical and disability expenses. Read and understand your coverage contract carefully.

## Property Insurance

Natural disaster, fire, burglary or vandalism can all be covered under this product. Property the business owns—both building and contents—can be included. It can also cover the property of your customers.

## Workers' Compensation

Worker's Compensation is not always required by law. To learn if you need to have this coverage go to: <https://labor.alabama.gov/wc>. Also speak with your insurance professional.

## Group Health

A complex and often difficult topic that can be a competitive advantage if you can manage to offer a health plan to your employees.

## Key Person

In the smallest of businesses (and in many larger

ones), one person with essential skills unable to work can hamstring the business and result in loss of revenue. You can insure against that person's loss of contribution.

## Completed Operations

As a contractor, you can become insured for events that may occur *after* you leave the jobsite.

## Business Interruption Insurance

This can pay for loss of income as a result of property damage that might occur to your business from either environmental factors, natural disaster or destruction by others. Coverage can be purchased for specific amounts and for specific amounts of time—such as a 30 day or 365 day period—or something in between. Talk with your insurance professional to learn more.

## Bonding

This is NOT an insurance contract. However, several different surety bonds can be purchased to cover a wide range of losses—such as dishonesty of your employees or failure to complete a contract. Two terms to know are:

**Fidelity Bond**—designed to protect a business or employer from losses due to the dishonesty of employees, partners or officers in the business.

**Performance Bond**—guarantees a firm's performance because of an obligation or contractual agreement. If you default on a contract or agreement to do work, it will guarantee payment to the other party who has contracted with you.

State and/or local entities often require certain occupations to obtain bonding before they can be individually licensed or their businesses can obtain a local business license. Also, many private companies—such as construction firms—require that a bond be posted prior to beginning work. Again, reach out to your insurance professional to learn more.

# Bookkeeping

Accurate recordkeeping is essential for successfully operating your business. Maintaining an up to date set of “books” will allow you to properly track your business activity and correctly report and forward your various tax obligations to the required agencies. But perhaps most importantly, a solid recordkeeping system will allow you to make informed decisions about your business and its future growth. At its most basic level, accurate accounting tells you the story of your business.

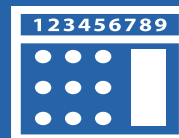
Factors to consider when choosing a recordkeeping system can include:

- Legal structure of your business.
- Your industry.
- Number of employees.
- Size and scope of your product lines or services.
- Number of locations your business will operate.

There are any number of different bookkeeping systems available to your business. ***You need to talk with your accounting professional and review your business needs to find the system that works best for you.*** It is strongly advised, if starting a business, that you identify and adopt your recordkeeping prior to opening your business.

All systems should provide:

- Detailed operating statements.
- Comparison of current results to budgets and prior periods.
- Financial statements.
- Information for tax returns and reports to regulatory agencies.
- Ability to protect assets and detect errors.



## Bookkeeping Vocabulary

**Accounts Payable:** A record of amounts owed by your business to creditors.

**Accounts Receivable:** A record of amounts owed to your business by customers.

**Balance Sheet:** A statement that states the balance in all accounts on a specific date.

**Chart of Accounts:** Serves as an index to the general ledger.

**Fixed Ledger Assets:** Contains records for all real and personal property owned by the business.

**General Ledger:** Contains balances of all accounts held by the business.

**Income Statement:** A statement that summarizes revenue and expenses for a specific period.

**Journal and Cash Disbursements:** A record of written checks.

**Payroll Register:** Summarizes payroll data, including wage withholding, FICA and unemployment insurance taxes.

**Purchase Journal:** Includes information on materials purchased.

**Sales and Cash Receipts:** Used to record all incoming cash.



*“The staff was very helpful and courteous! I was given the tools to help my business get up and running!”*

*SBDC Client*

#### **Any system you select should be able to:**

- Correctly measure the profitability and growth of your business.
- Track transactions with other businesses.
- Evaluate cash flows.
- Provide your lenders with accurate financial data.
- Monitor inventory levels.

#### **Who should keep your records?**

Depending on the complexity and size of your business—and if you have a strong background in accounting principles—you can keep your own books. But as your business grows and/or becomes more complex, consider engaging a full-time bookkeeper or accountant. In either case, the person can be hired as an employee or as an independent contractor. Again, the size and complexity of your business will guide your choice. Another possibility is to partner with a bookkeeping/accounting service. These services will typically compile your

receipts/cancelled checks and invoices, process the data and then provide you with prepared financial statements.

**There are several solid options available for your business when choosing a record-keeping system. Talk with your accounting professional, review your business factors and then decide. Be sure to pick a system that can be easily operated and that meets the needs of your business. Some possible choices currently on the market are:**

<https://www.xero.com/us/>  
<https://www.sage.com/en-us/>  
<https://quickbooks.intuit.com/>  
<https://www.waveapps.com/>

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**It is recommended you seek out professional advice from a qualified accountant to help you make the proper determinations regarding your bookkeeping needs.**

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# Financing Your Business

Financing will be needed to start—or grow your business. When starting a business there are several fundamental things to consider before seeking out funding. These can include:

- How much money will you need?
- When will you need it?
- How much of your total capital needs will **you** be able to provide?
- Are you willing to share ownership in the business?

It is often difficult—but not impossible—for a start-up business to obtain formal outside financing. For most sources of finance, the lack of a track record makes lending to startups a bit too risky. Therefore, quite often, small business startups are funded with the owner's own resources or with the help of family or friends. The good news is that after a couple of years—if the business shows potential—outside sources of finance such as banks become more available.

## Two Types of Financing

No matter the type of financing you seek out, it is important that you have a solid business plan in hand, accurate and truthful financial projections (or results) available and a full understanding of your personal credit status. Anyone willing to invest in your business idea will want that information in hand before making a decision.

### Debt

Debt financing involves borrowing funds from creditors with the obligation to repay the funds over time with interest. Debt financing may be obtained with collateral attached or unsecured. Debt financing can be long term—such as for building or equipment—or short term for immediate business operations like inventory or repairs.

The cost of debt financing is dependent on your creditworthiness, the performance or potential of the business, the quality of your collateral (if required) and general market conditions.

### Equity

Equity financing requires exchanging some portion of ownership in your business for funding. By investing in your business, the equity investor will be entitled to a share of profits and the arrangement represents a permanent investment in your company. Of course, at a future time a new arrangement can be negotiated—perhaps with a change in the ownership formulation or a complete “cashing” out by the investor. Equity investments can be complicated, and the nature of the investment will depend greatly on the type of business structure your business operates under and your capital requirements.

## Sources of Debt Financing

### Private

A commonly tapped source of debt financing for a startup business is family and friends. If this is the route you choose, be sure to create a formal loan document which includes the amount borrowed, the interest rate and repayment terms. A “casual” borrowing of funds from your family can lead to misunderstandings and disputes down the road. It is in the interest of all parties to formally structure the loan to avoid problems later.

### Banks and Other Commercial Lenders

Banks are the most well-known and traditional source of small business loans. It is difficult for a startup business to access bank lending. Lenders like to see a business plan, positive track record and lots of collateral. Apart from a business plan, those are usually hard to come by for a startup idea. Once you start your business and create a record of performance—sales, profitability and good credit



management—banks become a widely used source of growth capital. Typically, commercial lenders want to see at least two years of solid performance.

## Pro Tip:

**Be sure to establish a relationship with your local commercial lender before you ask for a loan.**

### Government

Federal, state and local governments have programs designed to assist the financing of small businesses. In general, these types of programs work in concert with traditional lenders. The assistance of these types of programs often—but not exclusively—takes the form of a government guarantee of the repayment to the participating lender. The participating lender is typically the originator of the loan. The best known federal small business lending programs are:

#### ***United States Small Business Administration (SBA)***

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

The 7(a)-loan program is SBA's primary program for providing financial assistance to small businesses. The terms and conditions, such as the guaranty percentage and loan amount, vary by the type of loan. The 7(a) program's fundamental method of increasing small business lending is by providing the local commercial lender with a "guaranty" up to a certain percentage of the loan amount. This makes the loan less risky for the bank. To learn more about the standard 7(a) loan program and other similar SBA small business loan products, go to:

<https://www.sba.gov/partners/lenders/7a-loan-program/types-7a-loans>.

##### *504 Loan Program*

The SBA 504 Loan program offers small businesses another avenue for business financing. The 504

loan provides approved small businesses with long-term, fixed-rate financing used to acquire fixed assets for expansion or modernization. 504 loans are made available through Certified Development Companies (CDCs). CDCs are SBA's community-based partners for providing 504 loans. 504 loans are typically structured with SBA providing 30%-40% of the total project cost, a participating lender covering up to 50% of the total project cost and the borrower contributing 10%-20% of the project cost. New businesses must contribute at least 15%. To learn more about SBA's 504 loan program, go to:

<https://www.sba.gov/offices/headquarters/ofa/resources/4049>.



**In Alabama, there are several Certified Development Corporations. Contact the Alabama Small Business Development Center Network at <http://asbdc.org/financing/> to find out how you can access a local CDC and start the 504 process.**

#### ***United States Department of Agriculture (USDA)***

Much of Alabama qualifies as rural under USDA guidelines. As a result, the guaranty lending programs provided by the USDA play an important role in assisting rural small business activity. The USDA's Business and Industry Loan Guarantees (B&I) program operates in a similar manner to SBA's 7(a) program. A wide range of local commercial lenders—such as banks, savings and loans and credit unions—can have their qualified small business lending guaranteed. Small business eligibility for this program begins with the business being in a USDA designated "rural" location. To learn more about USDA lending, go to:

<https://www.rd.usda.gov/programs-services/business-industry-loan-guarantees>.



## Alabama Regional Planning Commissions

Throughout Alabama there are twelve multi-county regional planning groups. These long-standing organizations are tasked with coordinating and providing technical support to governmental units within their respective multi-county areas. Along with coordinating and supporting local grant activity, the commissions play a large role in the economic development of their area. In support of that goal, each of the regional planning groups can provide funding—via a revolving loan fund—to eligible small businesses. These funds are usually provided in conjunction with a participating lender and the business owner. Your local economic development agencies can provide you with contact information. You can also find information by contacting the Alabama Association of Regional Councils at:

<https://alarc.org>.

### Other Debt - CDFI Options

**There are a number of other small business lending programs throughout Alabama—as well as nationally based lending organizations operating in Alabama. Some of the lending sources are sponsored by municipalities and some by locally based economic development groups. Eligibility for these types of funds are often tied to the location of your business. But regardless, standard loan assessment factors will still factor into your ability to access the funds. To learn more about these types of programs—which include Community Development Financial Institution (CDFI) organizations, contact the Alabama Small Business Development Center Network at <http://asbdc.org/financing/>.**

## Sources of Equity Funding

### Personal

The most common source of equity is **your** own funds which can range from basic savings to the cash value of an insurance policy—as well as equity in your home. The decision to use your own financial resources to invest in a business should always be balanced against you and your family's financial well-being and long-term interests. Be sure to talk with your financial advisors prior to making a final decision.

### Other Private Sources

As with debt financing, your extended family and friends can be a source of investment. But just like debt arrangements, care should be taken to treat your family's equity investment with as much formality as you would outside investors. Terms regarding ownership shares and involvement by the investors should be carefully drawn up and reviewed by your professional advisors.

### Outside Sources of Equity Investment

Widely referenced in the business media, venture capital investors and angel investors are individuals or companies that prefer to invest in relatively young, highly scalable businesses that have established product-market fit, achieved some traction, and formalized their team and business structure. They operate in a similar manner, but typically have different investment focuses. Angel investors are high-net worth individuals who use their own money to fund startups at early stages; they tend to be geographic or market-specific investors. Venture capitalists are usually a group of partners who invest in a fund, which has a committee that makes investment decisions. Both venture and angel investors seek out projects that provide a significant return on investment. To learn about possible equity investors in Alabama, contact the Alabama Small Business Development Center Network at <http://asbdc.org/financing/>.

# The Mind of A Banker

A banker's job is to assess the degree of risk in each proposed loan and 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 several things:

- The nature of the business
- The purpose of the loan
- The amount of the loan
- The ability to repay the loan
- The experience, management skill, and character of the business owner

To convince a banker (or investor) to provide you capital, a borrower must present complete financial projections supported by well documented assumptions.

## Some Types of Short-Term Financing

Credit Lines	Short-Term Loans	Asset-Based Loans	Factoring
Allows a bank to supply a business with funds intended to fill temporary shortages in cash. Credit lines are typically used to finance inventories, accounts receivable or for contract work. Banks will generally require that you maintain a designated balance of funds in your commercial bank account.	May be used for seasonal build-ups or inventory receivables as well as to take advantage of supplier discounts. Generally repaid in a lump sum at maturity. They are collateralized loans and are for a term of a year or less.	A loan advanced on a basis of a percentage of your current assets—such as accounts receivable or inventory. The lender secures a lien on the assets owned by the business.	Similar to accounts receivable financing with one distinct difference. Factors actually buy your receivables and rely on their system to collect payment from your customers. Your customers become their customers. Factoring is generally used by firms unable to obtain other financing. Be aware that factors become deeply enmeshed into your business.



*“My advisors were excellent in sending me in the right direction. Their cash flow analysis on the business was very helpful.”*

*SBDC Client*



In general, there are no broadly available government grants for *starting* a business. Check with your local economic development organizations for information concerning grant opportunities in line with your specific business idea or location.

## Improve Your Chance for Success: Use the SBDC Capital Access Team

The Alabama Small Business Development Center Network Capital Access Program (ASBDC CAP) helps Alabama entrepreneurs navigate the financing landscape. The ASBDC team can help you structure

your financing and identify sources of capital. Once a funding source has been found, the ASBDC CAP team can help you with financial projections and put you in the best position to obtain capital. Contact the SBDC at [www.asbdc.org](http://www.asbdc.org) to learn more.

The fundamental financial statement needed by a lender to assess your business’s financial position and ability to repay your loan is called a **Global Cash Flow (GCF)** analysis.

## What is a Global Cash Flow Analysis?

A “Global Cash Flow” compares all sources of household income to all sources of household debt, including proposed new debt. An analysis of the Global Cash Flow helps lenders assess the risk of a new loan and determine a borrower’s ability to service debt. In short, the GCF answers the question—Will there be enough cash available to cover the loan payment?

The ASBDC CAP team can perform a Global Cash Flow analysis for your business. But in order to best help you, the team recommends some basic requirements, documents and guidance in preparation for performing the analysis.

## **Minimum Requirements**

### ***Your credit history***

Do you have a demonstrated record of paying bills on time? This would include no charge offs, no active collections against you and minimal or no late payments. And of course, no recent bankruptcy.

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## **A Note About Bankruptcy**

**There are several types of bankruptcy. The two most pertinent for individuals attempting to start a small business are Chapter 13—also called a “wage earner’s” plan and Chapter 7. A Chapter 7 is generally meant for people whose income does not provide them the ability to pay back all or some portion of their debts. A Chapter 13 filer has the confirmed ability to pay back their debts, therefore the Chapter 13 allows them to reorganize their debts and to pay back their obligations over a period of 3-5 years. For the purposes of a borrower’s credit history, and their ability to acquire a loan for starting a business, the following applies:**

- **Chapter 13 bankruptcy remains on credit histories for seven years.**
- **Chapter 7 liquidations remain on credit histories for ten years.**

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### ***Equity Injection***

You must have “skin in the game.” You will need to provide **at least** ten percent of your project costs.

### ***Secondary Source of Income***

In broad terms, this means don’t give up your day job! Alternatively, this could include your spouse’s income or another business activity that can provide income. Your mortgage payment doesn’t go away just because you are starting a business.

### ***Experience***

It is important to have relevant management experience in the type of business you are trying to start.

## **Documents Needed**

### ***Complete Personal Financial Statement***

This will include any owner of 20% or more of the business. And if it applies, joint with spouse. Why ask for spouse if your spouse is not on the loan? Because a lender is looking at total household income.

### ***Three years of Personal Tax Returns***

It allows the lender to have a fuller picture of your household finances.

### ***Credit Report***

You can access for you and your spouse at [www.annualcreditreport.com](http://www.annualcreditreport.com).

### ***Project Expense Summary/Sources and Uses***

In short, you need to show how you plan to spend the funds.

**Payment history makes up  
35% of a credit score.**



## Guidance

### ***Manage your credit activity***

Track your credit efforts. Know your credit score. Be prepared to explain any credit missteps.


### ***Source of Equity Injection***

Typically, the equity injection **cannot** be borrowed. Save until you have it.

### ***Startups work best with an outside income.***

Though mentioned before, remember that an outside source of income is crucial when starting your business.

The Alabama Small Business Development Center Network and its Capital Access Team can help you answer the important questions you need to know before you obtain financing. Contact the SBDC at [www.asbdc.org](http://www.asbdc.org) to learn more.



***“The very fact that we are still operating today is due in large part to what we’ve learned from the resources offered by Alabama SBDC Network. I will be forever grateful for Alabama SBDC Network’s help.”***





# Your Team

An important step in starting your business is putting together your team of outside advisors. While the specific group of professionals you will engage for your startup will depend on the type of business you are starting, all new firms can benefit from a core group of professional expertise.

These include:

- Banker
- Accountant
- Insurance Agent
- Attorney
- Technology

You should choose your legal, accounting or other business advisors with great care—including checking for appropriate credentials and references. Consider the following process to identify the best team for your business:

## Define What Type or Kind of Advice You Need

The advice can be general (legal or accounting) or specific (sales contract or technical consultation.) Write out your thoughts to better understand what type of advice you are seeking.

## List Potential Advisors

- Ask business associates and friends
- Contact your industry association or local chamber of commerce
- Ask your current advisors—if available—about other advisors

## Consider the Following When Choosing

- Have they advised similar businesses?
- How many years of experience do they have in their field?
- How much time you expect them to commit to your needs?
- What will be their fee structure—both the amount and how they are determined?

Contact the Alabama Small Business Development Center Network at [www.asbdc.org](http://www.asbdc.org) for further guidance on putting together your team.

***“My advisor helped me build the perfect success plan for scaling my business.”***

*SBDC Client*

# Your Resource Partners

There are many different government agencies and groups—both in Alabama and federal—that will play a role in the start up of your business. From your tax obligations to registering your business with the state of Alabama to securing your intellectual property rights—you will find that information and more at the following resource partner websites.

Here is a list of a few of the most widely accessed resources:

## Federal Agencies

### Internal Revenue Service

The Internal Revenue Service (IRS) is the nation's tax collection agency and administers the Internal Revenue Code enacted by Congress. The IRS works to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. To learn more, go to:

<https://www.irs.gov/>.

### United States Department of Agriculture

The U.S. Department of Agriculture (USDA) is made up of 29 agencies and offices with nearly 100,000 employees who serve the American people at more than 4,500 locations across the country and abroad. To learn more about USDA programs go to:

<https://www.usda.gov/>.

### United States Patent and Trademark Office

The United States Patent and Trademark Office (USPTO) is the federal agency for granting U.S. patents and registering trademarks. In doing this, the USPTO fulfills the mandate of Article I, Section 8, Clause 8, of the Constitution that the legislative branch “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and

Inventors the exclusive Right to their respective Writings and Discoveries.” To learn more, go to:

<https://www.uspto.gov/>.

### United States Small Business Administration

The United States Small Business Administration (SBA) is the only cabinet-level federal agency fully dedicated to small business and provides counseling, capital and contracting expertise as the nation's only go-to resource for small businesses.

To learn more about the wide range of services and assistance provided by the SBA, go to:

<https://www.sba.gov/>.

### United States Veterans Administration

Veterans can earn a range of benefits that help them transition back to civilian life in the country they fought to defend. Through the Veterans Benefits Administration, the VA helps servicemembers transition out of military service and assists with education, home loans, life insurance and much more. To learn more, go to:

<https://www.va.gov/>.

## Alabama Agencies

### Alabama Department of Agriculture and Industries

The Alabama Department of Agriculture and Industries provides a favorable business climate for agribusinesses and related industries to thrive in Alabama. It maintains federal and state regulations that protect consumers and provide for food safety through inspections and permits. It actively supports economic development activities and promotes the domestic and international marketing of Alabama agricultural products. The Department operates the Alabama Farmers Market Authority to promote direct marketing avenues for Alabama agriculture products and advocate for the interest

of farmers markets and for the needs of direct market farmers. To learn more, go to:

<http://agi.alabama.gov/>.

### **Alabama Department of Commerce**

The Alabama Department of Commerce coordinates and supports the strategic efforts of its partners and allies across the state to secure new capital investment and jobs. The Department of Commerce also plays a critical role in the state's workforce development efforts, small business advocacy, international trade expansion, and rural development. To learn more, go to:

<https://www.madeinalabama.com/>.

### **Alabama Department of Environment Management (ADEM)**

Alabama is blessed with a wealth and variety of natural resources which provide significant social, economic, and environmental benefits and opportunities for the citizens of Alabama. The mission of ADEM is to assure for all citizens of the State a safe, healthful and productive environment. To learn more, go to:

<http://adem.alabama.gov/>.

### **Alabama Department of Labor**

The Alabama Department of Labor is responsible for Unemployment Compensation and Insurance, Workers Compensation and Employment Services, as well as enforcing child labor laws. The department also works to align state workforce resources. To learn more, go to:

<https://labor.alabama.gov/>.

### **Alabama Department of Revenue**

The Alabama Department of Revenue (ADOR) administers the revenue laws to fund governmental services for the citizens of Alabama. ADOR provides information and services for both individuals and businesses in Alabama. To learn more, go to:

<https://revenue.alabama.gov/>.

### **Alabama Secretary of State**

The Secretary of State office is the official repository for business records in Alabama. Business records are divided into three categories: Lands & Trademarks, Business Entities, and Uniform Commercial Code (UCC). The Lands and Trademarks Section has the original state land records dating back to the days when Alabama first achieved statehood. All of the trademarks registered in the state are also found here. Business Entity staff members reserve names of businesses, index domestic filings, and file foreign filings for businesses that register to do business in Alabama. The state has about 500,000 business entity filings, and staff members usually receive about 300 requests each day for information in those files. To learn more, go to:

<https://www.sos.alabama.gov/>.

## **Economic Development Groups**

### **Alabama Regional Councils of Government**

Each of the Regional Councils—twelve in all—works to improve the quality of life for residents via a number of community and economic development programs and technical assistance to local governments. Council staff do this through the preparation, submission and management of grants and administering a revolving loan fund—which can be used to support business development goals in their respective regions. To learn more, go to:

<https://alarc.org/>.

### **Business Council of Alabama**

The Business Council of Alabama (BCA) works to improve Alabama's business climate through its advocacy on behalf of business at the Alabama Legislature and in the U.S. Congress. The BCA is the exclusive affiliate in Alabama of the National Association of Manufacturers and the U.S. Chamber of Commerce. To learn more, go to:

<https://www.bcatoday.org/>.

## **Chamber of Commerce Association**

The Chamber of Commerce Association of Alabama (CCAA) consists of Chambers of Commerce and members of the business community and other groups that directly serve chamber of commerce work in the State of Alabama. The organization exists to strengthen the vital role local Chambers of Commerce play in economic and community development. To learn more, go to:  
<https://alabamachambers.org/>.

## **Economic Development Association of Alabama**

The Economic Development Association of Alabama (EDAA) is a membership-based organization focused on promoting economic growth in Alabama. Economic development professionals throughout the state, along with individuals and companies in related fields, work together with the EDAA staff and board of directors to help positively influence state legislation and industrial growth within the state. To learn more, go to:  
<https://edaa.org/>.

## **Economic Development Partnership of Alabama**

The Economic Development Partnership of Alabama (EDPA) is a private non-profit organization funded by more than 60 Alabama companies, whose mission is to attract and retain world-class talent across a broad spectrum of interests and industries, support and inspire both industry and innovative/emerging companies whether home-grown or transplanted, expand existing businesses, and be the trusted source for data and insights for key economic drivers and stakeholders for Alabama economic development. EDPA operates Alabama Launchpad, the state's most active early seed stage fund for startups and entrepreneurs. Its startup competitions give early-stage startups the opportunity to take an idea from concept to reality. To learn more, go to:  
<https://edpa.org/>.

## **National Federation of Independent Businesses**

The National Federation of Independent Businesses (NFIB) advocates on behalf of the country's small and independent business owners—both in Washington, D.C. and in Alabama. To learn more about the NFIB in Alabama, go to:  
<https://www.nfib.com/alabama/>.



**Two excellent portals for government programs—both in Alabama and federally.**

<https://www.usa.gov>

<https://www.alabama.gov>

## **Pro Tip:**

**There will be an industry association specifically for your business idea. As early as possible, reach out to them. They will have industry specific research, publications and supply sources targeted directly to your business idea. Some examples—out of many—would include:**

**Restaurant**

<https://restaurant.org/home>

**Pet Store**

<https://www.americanpetproducts.org/>

**Fitness**

<https://www.sfia.org/>

# Alabama Small Business Development Center Network

The Alabama Small Business Development Center (SBDC) Network is a statewide program-hosted by The University of Alabama—which provides no-cost management and technical assistance to small businesses in Alabama. Professional business advisors are available in ten Small Business Development Centers located across the state.

Alabama SBDC member institutions are Alabama State University, Auburn University, Jacksonville State University, Troy University, University of Alabama, University of Alabama in Huntsville, University of North Alabama, and University of West Alabama. To find the SBDC office nearest to you, go to [www.asbdc.org](http://www.asbdc.org).

## Services Provided by the ASBDC

### Advising and Technical Assistance to Start or Grow Your Business

The Alabama SBDC specializes in one-on-one business advising and educational training for small businesses throughout Alabama. The array of services and counseling available for your business idea can include:

- Guidance on licenses, permits and business formation
- Industry and market specific research
- Market and growth strategies—including eCommerce
- Business planning and strategy assistance
- Registrations and certifications

- Identifying sources of capital
- Preparation of financing proposals (for qualified businesses)

### Government Procurement

Since 1985, the Alabama SBDC Network has offered professional, no-cost one-on-one assistance to Alabama companies that want to compete for government contracts in cooperation with the Alabama Procurement Technical Assistance Center (PTAC) program. Hosted by The University of Alabama, the Alabama PTAC has certified procurement specialists to assist firms on a one-on-one basis and utilize a unique bid-match system to help small businesses bid on government contract opportunities. Alabama PTAC services can assist in the following ways:

*“The service I received regarding GSA Schedule was extremely helpful and I’m presently working towards completing...”*

*SBDC/PTAC Client*

- Free Guide to Government Contracting for Alabama’s Small Businesses
- Bid-Matching Service
- Procurement Matchmaker Events
- Professional Advisors: PTAC Specialists are trained and certified professionals that you can trust.
- SAM.gov Registration

*“The individuals at the SBDC have always been very helpful...when I needed assistance with Woman Owned and HUBZone process, they not only answered the questions, but gave me further information to help.”*



- Certifications: HUBZone, Women-Owned (WOSB), SBA 8(a), Veteran owned
- No-Bid Contracts-Simple Acquisition
- DUNS Number

To learn more, go to <http://asbdc.org/procurement/>.

### **International Trade**

Established in 1979, the William R. Bennett Alabama International Trade Center (AITC) at the University of Alabama is a member of the Alabama SBDC and operates statewide to provide one-on-one trade assistance to help small businesses to increase export sales and boost the state's economy. A team of export professionals provides export counseling, research and training to help small firms enter foreign markets. The Center also provides export financing guidance to help firms expand international sales. AITC specialists can assist your business with questions about export compliance, licensing, HS Code classification, customs and all aspects of international trade. To learn more, go to <http://asbdc.org/international-trade/>.



# United States Small Business Administration

## Mission

Created in 1953, the United States Small Business Administration (SBA) helps Americans start, build and grow businesses. The SBA is the only cabinet-level federal agency fully dedicated to small business and provides counseling, capital and contracting expertise as the nation's only go-to resource for small businesses.

Since its founding, the SBA has delivered millions of loans, loan guarantees, contracts, counseling sessions and other forms of assistance to small businesses. To learn more about the wide range of services and assistance provided by the SBA, go to <https://www.sba.gov/>.

## SBA Lending

The SBA works with lenders to provide loans to small businesses. The agency does not lend money directly to small business owners. Instead, it sets guidelines for loans made by its partnering lenders, community development organizations and micro-lending institutions. The SBA reduces risk for lenders and makes it easier for them to access capital.

SBA-guaranteed loans generally have rates and fees that are comparable to non-guaranteed loans. Lower down payments, flexible overhead requirements and no collateral is needed for **some** loans.

## Range of SBA loans

Loans guaranteed by the SBA range from small to large and can be used for most business purposes, including long-term fixed assets and operating capital. Some loan programs set restrictions on how you can use the funds, so check with an SBA-approved lender when requesting a loan. Your lender can match you with the right loan for your business needs. To learn more, go to <https://www.sba.gov/funding-programs/loans>.

## Loan Eligibility Requirements

Lenders and loan programs have unique eligibility requirements. In general, eligibility is based on what a business does to receive its income, the character of its ownership and where the business operates. Normally, a business must meet size standards, be able to repay and have a sound business purpose. Even those with bad credit may qualify for startup funding. The lender will provide you with a full list of eligibility requirements for your loan. Again, to learn more, go to <https://www.sba.gov/funding-programs/loans>.

## Federal Contracting Assistance

The United States government is the largest customer in the world. It buys all manner of products and services—in both large and small quantities—and it's required by law to consider buying from small businesses. Those contracts are a tremendous financial opportunity for small businesses.

## How Federal Contracting Works

The process of requesting proposals, evaluating bids and awarding contracts should take place on a level playing field. The government should consider a bid from any qualified business.

Federal agencies must publicly list their contract opportunities. Some of these contracts are set aside exclusively for small businesses. In some cases, these so-called set-aside contracts might consist of certain types of tasks on larger contracts. In others, entire contracts may be reserved for small businesses. When an entire contract is set-aside for one specific small business, it's called a sole-source contract.

**Alabama small businesses can learn more about federal, state and local contracting opportunities by contacting their nearest Procurement Technical Assistance Center (PTAC). Go to <http://asbdc.org/procurement/> to find the PTAC nearest to you.**

## **SBA's Role in Contracting**

The SBA works with federal agencies in order to award a significant percentage of prime government contract dollars to eligible small businesses. Much of these contracting opportunities take the form of set-asides and sole-source contracts. SBA also offers counseling and help to business contractors.

In order to get started in acquiring contract dollars, SBA recommends several steps. These include:

- Assess your business. Evaluate your small business to see if it has what it takes to win a government contract.
- Determine if your business meets basic requirements that allow you to compete for government contracts.
- Research the federal marketplace.
- Check SBA's size standards to determine whether your business qualifies as small.
- Be informed regarding appropriate regulations that govern the government contracting process.
- Take advantage of SBA's counseling services and assistance.

To learn more about SBA's federal contracting programs and services, go to <https://www.sba.gov/federal-contracting>. Or contact the SBA at:

Office of Government Contracting &  
Business Development  
409 Third St. SW suite 8000  
Washington, DC 20416

## **SBA Local Assistance Network**

The Alabama SBA District Office offers counseling, training and business development to help Alabama small businesses grow. Additionally, the SBA works with a number of local partners to expand its assistance outreach. To learn more about the Alabama SBA District Office, go to <https://www.sba.gov/offices/district/al/birmingham>.

## **SBA's Resource Partners:**

### ***Alabama Small Business Development Center Network (ASBDC)***

A network of centers that provide counseling and training to help small business owner start, grow and expand their business. To learn more, go to <http://asbdc.org/>.

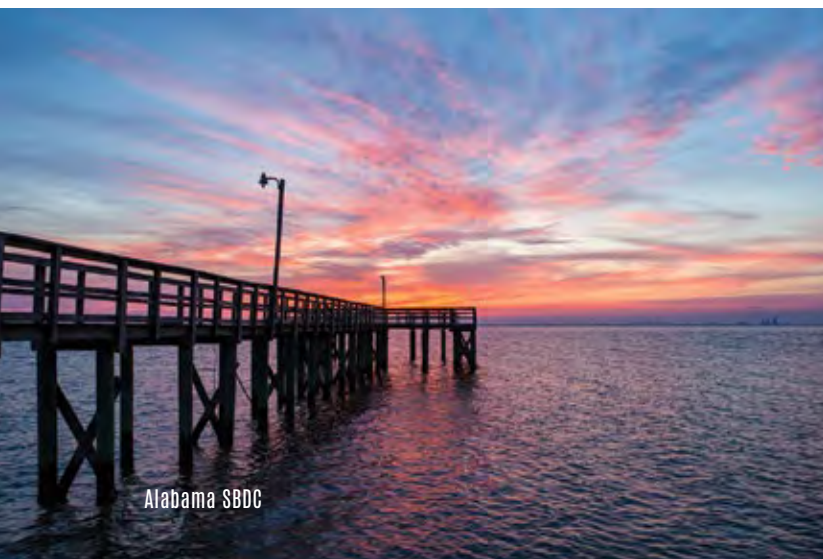
### ***Service Corps of Retired Executives (SCORE)***

Volunteer business counselors, advisors and mentors who offer individual free to low cost counseling throughout the U.S and its territories. To find a SCORE advisor, go to Find a SCORE mentor.

### ***Women's Business Center (WBC)***

WBC's provide free to low cost counseling and training and focus on women who want to start, grow and expand their small business. To find a Women's Business Center, go to Find a Women's Business Center.







# Alabama Small Business Development Center Network

The Alabama Small Business Development Center (SBDC) Network is a statewide program—hosted by The University of Alabama—which provides no-cost management and technical assistance to small businesses in Alabama. Professional business advisors are available in ten Small Business Development Centers located across the state.

Alabama SBDC member institutions are Alabama State University, Auburn University, Jacksonville State University, Troy University, University of Alabama, University of Alabama in Huntsville, University of North Alabama, and University of West Alabama. To find the SBDC office nearest to you, go to [www.asbdc.org](http://www.asbdc.org).

## Contact information:

Alabama SBDC Network  
The University of Alabama  
Box 870396  
Tuscaloosa, AL 35487 USA  
Tel: 205.348.1582  
Toll Free: 877.825.7232  
[www.asbdc.org](http://www.asbdc.org)



*“Just excellent. Every detail is thought out and it really helps a young business owner like myself get a grasp of how my business needs to operate.”*

*SBDC Client*

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Alabama Small Business Development Center





# Contact Your Local SBDC Today

