

**Tennessee Society of CPAs**

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**FOR IMMEDIATE RELEASE**

Monday, Sept. 26, 2016

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**Avoid these Pitfalls for New Business Owners**

There are about 29 million small businesses in the United States, according to the Small Business Administration, and new ones are being opened every day. Launching and sustaining a successful new venture can be daunting, but there are ways to avoid common challenges that many startups face. The Tennessee Society of CPAs highlights some smart ways to avoid common mistakes made by new business owners.

**Don't Pick the Wrong Legal Structure**

What will your business be: a sole proprietorship, limited liability corporation, partnership, S corporation or corporation? That's an important question, because choosing the wrong legal structure could have negative tax or legal implications for your fledgling company. Identifying the right one for you will depend on a number of factors, including how many owners are involved and the type and nature of the business. Since this is an important decision, be sure to consult your CPA if you have questions on the best choice for you.

**Don't Rely on Handshakes**

No matter how well you know your partners in your new venture, it makes sense to draw up a partnership or similar agreement at the outset so that there are no misunderstandings. The agreement can specify how much of the organization each partner owns, how owner compensation and benefits will be handled, the responsibilities of each partner, how decision making will be addressed and what happens when an owner wants to leave the business or the business shuts down. Conflicts can sap a great deal of a small business owner's energy, but you can sidestep them if you all start on the same page.

### **Don't Neglect Tax Issues**

It may not be anyone's favorite topic, but taxes are complex and your business could face interest and penalties - and potentially serious financial and legal problems - if you ignore tax considerations.

Whether you're a sole proprietor who needs to plan for quarterly estimated tax payments or a corporation that needs to address issues such as payroll withholding, understanding your tax requirements should be one of your first priorities.

### **Don't Think about Payment Later**

Every company has experiences with customers who don't pay on time, and in some cases don't pay at all. That's why it's important to determine early on what steps you will take to ensure you receive the money you're owed. When you draw up customer contracts, for example, be sure to spell out precisely what products or services the client will receive and when, and when you will be paid. In some cases, it may be a good idea to ask for a percentage of payment up front, especially if you'll be laying out significant funds for supplies or labor or if the completion date is well into the future.

### **Don't Miss the Big Picture**

Your own efforts will certainly be crucial to the business's success, especially in the early years. In lean times, you may have to fill the roles of both boss and worker. However, as you're taking on day-to-day responsibilities, don't forget the importance of working on your business and not just in it. While you're filling orders and sending invoices, it's also important to be planning for the future, promoting the business to potential new clients and identifying growth opportunities. Be willing to delegate whenever possible, so you can focus your time on the big-picture concerns that require a business owner's attention.

### **Your CPA Can Help**

As you start your new business venture, remember that your CPA can serve as your trusted business advisor. Turn to him or her with all your financial concerns.

### **About Money Management**

Money Management is a column on personal finance that is a joint effort of the AICPA and the Tennessee Society of CPAs, as part of the profession's nationwide 360 Degrees of Financial Literacy

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