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COLORADO BUSINESS START UP KIT

DENVER EDITION

Colorado Business Start-Up Kit

The Colorado Business Start-Up Kit

Brought to you by:

Colorado Office of Regulatory Reform
1560 Broadway, Suite 1530
Denver, Colorado 80202
(303) 592-5920
1-800-333-7798

Wellington E. Webb
MAYOR

City and County of Denver
CITY AND COUNTY BUILDING • DENVER, COLORADO • 80202

AREA CODE 303 640-2721
640-2720 (V/TDD)

Beginning a new business venture is exciting. This excitement is often balanced by the uncertainty of not knowing Federal, State and City regulations you'll need to use to operate your business. I am pleased to join the State of Colorado in providing you the Denver Edition of the Colorado Business Start-Up Kit. The Kit gives you important information and phone numbers that will help you at this critical time.

Small business is the "motor that drives Denver's economy" and I'm strongly committed to enhancing opportunities for small business in our city. The City and County of Denver offers unique programs specifically oriented to assisting small businesses.

The Mayor's Office of Economic Development provides technical and loan assistance for small business. The Mayor's Office of Employment and Training assists businesses with job training and employee placement. The Mayor's Office of Regulatory Reform serves as a liaison for business owners dealing with Denver's licensing and regulatory agencies. Don't hesitate to contact these agencies for assistance, they are for your use.

We've also developed a series of small business videos you may check out from the Denver Public Library or have shown on Denver cable channel 28. If you have cable television in Denver call 640-8933 Friday's, between 10.00 A.M. and 3:00 P.M. Ask for any of the following:

- "Get Ready - Starting a Business in Denver"
- Tax and Regulatory Issues
- Assistance Programs
- How to do Business in Denver
- Programs for Women and Minority Owned Businesses

Good luck and thank you for joining the business community in Denver.

Yours truly,

Wellington E. Webb

Wellington E. Webb
Mayor

Denver Business Information Guide

Excise and Licenses — **General:** **640-2064**
200 West 14th Avenue — **Liquor:** **640-2067**
Denver, Colorado 80204
Issues a variety of licenses required to do business in Denver.

Mayor's Office of Economic Development — **640-7100**
216 16th Street, #1000 — **FAX:** **640-7059**
Denver, Colorado 80202
Helps businesses start, expand or relocate in Denver. Works with businesses and provides technical assistance. Call for information on financing, site selection enterprise zone tax credits and demographics.

Mayor's Office of Employment and Training — **893-3382**
1391 North Speer, #500 — **FAX:** **899-4029**
Denver, Colorado 80204
Assists businesses with targeted job training and employee placement.

Mayor's Office of Regulatory Reform — **640-2894**
280 14th St., 2nd Floor
Denver, Colorado 80202
Works to eliminate unnecessary regulations and paperwork. Serves as business ombudsman for businesses with regulatory agencies. Small business videos are available at the Denver Public Library or if you have cable television in Denver call 640-8933 Fridays, between 10:00 AM and 3:00 PM and ask for any of the following to be shown on Channel 28 at your convenience:

- "Get Ready - Starting a Business in Denver"
- "Tax and Regulatory Issues"
- "Assistance Programs"
- "How to Do Business in Denver"
- "Programs for Women and Minority Owned Businesses"
- "Financing Your Small Business"

Revenue Department — **640-2644**
144 West Colfax, #100
Denver, Colorado 80202
Licenses businesses for sales and occupational privilege (head) tax.

Other Useful Numbers

Building Inspection Department	**640-5843**
City Construction Projects - Bid Information	**640-5473**
Disadvantaged Business Enterprise Certification	**640-3808**
Health Permits (Restaurants or Temporary Events)	**436-7330**
Purchasing	**640-2382**
Zoning	**640-2191**

Letter From Governor Roy Romer

STATE OF COLORADO

EXECUTIVE CHAMBERS
136 State Capitol
Denver, Colorado 80203-1792
Phone (303) 866-2471

Roy Romer
Governor

New business takes a great deal of time, energy and financial risk. I believe that government ought to help new ventures, not stall them during the precarious, early months of development.

The Colorado Business Start-Up Kit provides valuable information to help guide new and expanding businesses toward success. In addition, the forms necessary to establish your enterprise in Colorado are included. Complete these documents and return them to the proper agencies and important steps in the start-up process will be completed.

Colorado welcomes you and your contributions to the state's economy. Good Luck.

Sincerely,

Roy Romer
Governor

STATE OF COLORADO

DEPARTMENT OF REGULATORY AGENCIES
Office of the Executive Director
Joseph A. Garcia, Executive Director

1560 Broadway
Suite 1550
Denver, Colorado 80202
V/TDD (303) 894-7880
(303) 894-7855

Roy Romer
Governor

Dear Business Owner:

The Department of Regulatory Agencies recognizes the importance of small business development to our quality of life and the continued vitality of Colorado's economy. In anticipation of your success, it is our pleasure to provide you with the services of the Business Assistance Center and the Colorado Business Start-up Kit. The kit is a reference guide to the various aspects of starting and operating a successful business in Colorado and contains useful information on federal and state programs designed to assist small businesses.

We understand that it is individuals like you who are responsible for our state's economic growth and we wish to extend the finest possible services to you. The Department of Regulatory Agencies is dedicated to the highest quality of service to the citizens of Colorado. On behalf of the Department and the Office of Regulatory Reform, I wish you the utmost success in your new venture.

Sincerely,

Joseph A. Garcia
Executive Director

Table of Contents

INTRODUCTION 1

STARTING A BUSINESS CHECKLIST 1

BUSINESS ENTRY OPTIONS 2
- Starting a New Venture
- Buying an Existing Business
- Buying a Franchise

LEGAL STRUCTURE AND REGISTRATION 5
- Sole Proprietorship
- General Partnership
- Limited Partnership
- Corporation
- S Corporation
- Limited Liability Company (LLC)
- Where to Register

EMPLOYER RESPONSIBILITIES 10
- Employees vs Independent Contractors
- Special Employment Situations
- Employer/Payroll Registration Forms
- Payroll Tax Filing Requirements and Forms
- Workers' Compensation
- Employee Right to Know Laws
- Americans with Disabilities Act
- Employer Posting Requirements

COLORADO SALES TAX 18
- Sales Tax Licenses
- Collecting Sales Taxes
- Special Situations
- Filing Returns and Payment of Taxes
- Department of Revenue Service Centers
- Consumer Use Tax

INCOME AND PROPERTY TAX 22
- Corporations
- Partnerships
- Self Employment Taxes
- Property Taxes
- Enterprise Zones

BOOKKEEPING 24
- Basic Record Keeping
- Bookkeeping Vocabulary
- Who Should Keep the Records

CHOOSING ADVISORS 26
- A Guide to Choosing Your Advisors

SOURCES OF GOVERNMENT ASSISTANCE 28
- Office of Regulatory Reform
  - DBE Certification
- Office of Business Development
  - Small Business Development Centers
- Community Colleges/Occupational Education Systems
- Small Business Administration (SBA)
- Governor's Job Training Office (GJTO)
- Job Service Centers
- CU Business Advancement Centers (CUBAC)
- Economic Development Offices

MARKETING 31
- Market Research
- Developing a Marketing Plan
- Evaluating Your Marketing Efforts
- Special Marketing Assistance

BUSINESS PLAN 35
- Business Plan Outline
- Planning Hints

FINANCING OPTIONS 38
- What You Need to Know
- Short-Term Financing Methods
- Intermediate And Long-Term Financing Methods
- Government Financed and Backed Sources
- Equity Financing

LIABILITIES AND INSURANCE 42
- Types of Liabilities
- Types of Insurance Protection

TRADEMARKS, COPYRIGHTS AND PATENTS 45
- How to Register a Trademark
- How to Register a Copyright
- How to Register a Patent

IMPORTANT PHONE NUMBERS 47

This Edition Revised June 1993

Introduction

The ***COLORADO BUSINESS START-UP KIT*** provides general information to assist you in starting and maintaining a business. It is designed to save you time by putting together the city, state and federal forms necessary to establish a business in Colorado. Depending on your individual requirements, you will find included:

The Application for Employer Identification Number, form SS-4, is the application for a Federal Employer Identification Number (FEIN) which should be filed by all corporations and partnerships. A sole proprietor should only use this form if they will have employees. A FEIN is necessary to establish social security (FICA), federal withholding and federal unemployment (FUTA) accounts.

The Colorado Employer Registration Form, form CR100, is a multi-purpose form used to: register a trade name; open sales, use and tourism tax accounts; and establish state withholding and unemployment insurance accounts.

The Trade Name Registration form DR0592 may be used by general partnerships and sole proprietors who only need to register trade names.

City Sales Tax Applications are included, whenever possible, for required city sales tax licenses. If the city sales tax application is not included or for any additional city forms, contact the appropriate city clerk.

This kit provides basic information for starting a business in Colorado; however, it must be stressed this is only a starting point. There may be additional permits or regulatory requirements for your particular enterprise. If after reading the Start-Up Kit you have further questions, please contact:

COLORADO SMALL BUSINESS HOTLINE
(303) 592-5920 in the Denver area
or 1-800-333-7798 statewide

Starting a Business Check-list

Starting a business is risky. Understanding the risks and reducing them through careful planning improves the chances for business success. You should be fully aware of the implications of owning your own business. The best advice for anyone starting or operating a business is to **EDUCATE YOURSELF.** This kit is only the first step and outlines only the basic information you will need to start your business. The following checklist can be used as a guide as you start your business.

❑ Decide upon the legal structure of your business and register your business with the appropriate state and/or federal agencies. Refer to the Legal Structure and Registration section of the Start-Up Kit. The legal structure of your business may have implications on several tax levels - federal, state and local. Refer to the Income and Property Taxes section of the Start-Up Kit. There may be additional implications if the business operates in more than one state. The Internal Revenue Service, (303) 825-7041 or 1-800-829-1040, and the Colorado Department of Revenue, (303) 534-1208, can provide more specific information.

❑ If your business will have employees, you must open federal, state and local wage withholding and payroll tax accounts. Refer to the Employer Responsibilities section of the Start-Up Kit.

❑ If your business will be selling, renting or leasing tangible personal property, obtain state and local sales tax licenses. If you rent accommodations for less than 30 days, a sales tax license is also required. Refer to the Colorado Sales Tax section of the Start-Up Kit.

❑ Define the products or services you will provide. Is there actually a need for what you will provide in today's marketplace? Is the demand great enough to be profitable? What is your competitive advantage? Develop your marketing strategy. Refer to the Marketing section of the Start-Up Kit.

❑ Are there any special licenses required for the type of business you are in? The Small Business Hotline, (303) 592-5920 or 1-800-333-7798, has information on federal, state and local business licensing.

❑ Find the best location for your business. The Colorado Department of Transportation, 4201 E. Arkansas Ave, Denver, CO 80222; (303) 757-9488 has information on traffic patterns on state highways. Some city and county governments have information on city and county roads. Observe pedestrian movement during business hours to estimate walk up potential.

❑ Check with the local city and county government regarding any special business regulations, sales taxes, personal property taxes and zoning restrictions.

❑ Seek management advice and counseling. Business organizations, business consultants, your local Small Business Development Center, the Small Business Administration, trade associations, and your local chamber of commerce are good sources. Refer to the Sources of Government Assistance and Choosing Advisors sections of the Start-Up Kit.

Good luck and best wishes for a prosperous future in your new business

❑ Develop a sound business plan with specific goals and objectives. A business plan should show where you are, where you want to go and how you will get there. Refer to the Business Plan section of the Start-Up Kit.

❑ Develop a financial plan, include profit and loss projections, cash flow analysis and capital requirements. Refer to the Financing Options section of the Start-Up Kit.

❑ Obtain adequate insurance coverage. Protect your business activities far enough in advance to cover your growth. Refer to the Insurance Needs section of the Start-Up Kit.

Business Entry Options

There are typically three avenues available to start a new business: starting a new venture, buying an existing business, or buying a franchise.

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. A new venture may also be pursued when there is a customer base you can serve or you are aware of an unfilled market need (i.e. there is no dry cleaner within 12 square miles). Factors you need to consider when forming a new venture include: legal structure, location, facilities, equipment, employees, taxes, marketing and advertising, a records 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 the business' debts. Purchasing an existing business can be fairly complex. The following is a brief summary of some of the concerns of which you should be aware:

What To Ask To Avoid Commercial Fraud

✓ Do you know why the seller is selling the business? If the business has not been profitable, find out why. Do you have a plan to make it profitable?

✓ Does your purchase agreement include the sale of the business name? The property? The equipment and inventory? The debts? Be sure the exact terms of the sale are spelled out clearly before you buy.

✓ Ask the seller about outstanding claims on inventory, equipment and fixtures. Whose responsibility will it be to settle these claims?

✓ Are there liens against the property you are buying? Check with the seller and the county clerk and recorder's office in the county where the business and the seller are located. Also check with the Uniform Commercial Code Section in the Secretary of State's office for records of any security interests that may have been filed as liens against the property or assets of the business. For information contact: U.C.C. Section, Secretary of State, 1560 Broadway, Suite 200 Denver, CO 80202, (303) 894-2200.

✓ Will the owner of the building transfer the lease to you? What are the terms and restrictions of the lease?

✓ Review the business' past and current financial statements. Are they in good order? Also, examine any existing contracts that affect the business' operations.

✓ Can you transfer the existing phone number(s)? The phone service may require information from both you and the seller.

If There Are Employees In The Business—you will be responsible for withholding tax, unemployment insurance, workers' compensation and social security (FICA). You must open new employee payroll accounts unless you buy out the stock of an existing corporation and do not set up a new corporation. In every case the unemployment history established under the former owners will transfer to your account. When you purchase the business, the former owner should file form UILT-2 to report the change in ownership. For more information on payroll tax requirements see the Employer Responsibilities section of this Start-Up Kit.

Tax Liabilities—If you purchase a retail business you may be liable for sales tax debts of the business. As a precaution, you should get a tax status letter from the Department of Revenue before buying. The tax status letter must be requested by the current owner using form DR 0096. Tax status letters may be requested on all state collected tax accounts including sales tax, wage withholding and corporate income tax accounts. There is a $10 charge for each account requested. If you purchase a corporation, you may have the option of keeping the same sales tax account with the Department of Revenue. If you purchase a sole proprietorship or a partnership, you are required to open a new sales tax account.

When you purchase tangible property as part of a business, such as furniture, fixtures or equipment (new or used) for which you have not paid sales tax, you must pay a use tax. For further information about state tax liabilities when purchasing a new business, contact the Colorado Department of Revenue, (303) 534-1208. You may also be liable for personal property taxes imposed by the county. Contact the local county assessor's office for more information regarding personal property taxes.

Buying a Franchise

Franchising offers a unique opportunity for individuals interested in operating a business. It allows you to both own and operate a business while drawing from the resources of the parent company. This arrangement may reduce some of the risks of going into business for yourself.

Franchise Services—The parent company, the franchisor, often provides a range of services to assist you, the franchisee, in starting and operating the business. Forms of assistance vary depending upon the company but may include:

✓ Use of the company trademark, trade name, service mark or any other "mark";
✓ Site selection for your business;
✓ Training programs;
✓ Marketing and advertising ideas;
✓ Purchasing and inventory assistance;
✓ Capital/financial assistance.

Selecting A Franchise—Once you have decided that you are able to meet the requirements for purchasing a franchise, you may want to shop around for the best investment. There are various publications and franchise directories available from bookstores and public libraries. Many times the classified sections of your local newspaper or magazines have listings of franchise offers.

Ask The Right Questions—Obtaining reliable information **before** you invest in the business will help you make an informed decision. The success of the franchise depends upon a number of factors. Most importantly, you should consider:

✓ What are the total costs of the franchise? These may include opening costs for inventory and fixtures, franchise fees, working capital, on-site expenses for the lease and construction and any service charges. Is it affordable? Are there any hidden costs that might not be spelled out in the franchise agreement?

✓ What types of training programs are available? At what cost? For how long?

✓ What type of assistance will you receive from the franchisor? For how long?

✓ If there are changes in the program or method of doing business, will you have any input into the process?

✓ Are there restrictions on renewing, transferring, selling or terminating the business? Does the franchisor have the right of first refusal when renewing your contract?

✓ What type of control will the franchisor exercise over the operation of your business?

✓ What types of ongoing fees or royalties are involved?

✓ What are the costs of purchasing the necessary equipment? Are competitive rates available? What type of warranty and maintenance services are available? If the equipment becomes outdated, what must you do to update it?

✓ What financial investment is required of you? Does the franchisor offer credit arrangements?

✓ How will you finance the business? What are your current assets? What types of loans will you be eligible for?

Exercise Caution—Before you agree to invest in a company that promises you large financial returns, you should exercise some caution. Colorado lacks specific laws to protect you, should you need recourse. There are, however, general provisions governing "good business practices." These protections against deceptive and unfair trade practices are stated in the Colorado Consumer Protection Act and the Uniform Consumer Credit Code. The federal government also offers protection from problems encountered by non-disclosure and misrepresentation. The Federal Trade Commission's *Franchise Rule* requires franchisors to provide prospective buyers with a detailed disclosure statement regarding the company's history, background and operations. This document should also spell out the costs and responsibilities of both the franchisor and the franchisee and must be made available to you at least **ten days before** any agreements are signed, or at the first face to face meeting, whichever comes first.

BEFORE YOU BUY:

✓ **ALWAYS** ask for a disclosure statement.

✓ Compare similar franchise benefits and costs.

✓ Contact current franchisees for additional information and compare their business experiences with the information provided to you by the franchisor. The franchisor should make the names of their other franchisees available to you.

✓ Investigate the franchisor's earnings claim. Are they legitimate?

✓ Obtain a **WRITTEN CONTRACT** specifying the exact terms of the franchise agreement and any promises the franchisor makes to you.

✓ Make sure you thoroughly understand the company's operating policies.

✓ Consider consulting a professional, independent (not one recommended by the franchisor) attorney, CPA or business advisor, who is familiar with franchise laws to examine the terms of the franchise offer before you sign to help you secure the best deal. Your advisor should review the franchise contract itself, any property/equipment purchase agreements and any property/equipment leasing agreements.

Additional Sources of Reference

✓ *"The Franchise Opportunities Handbook"*, published by the U.S. Department of Commerce is available for $16.00 from the Government Printing Office Bookstore, Federal Building, 1961 Stout St., Room 117, Denver, CO 80204, (303) 844-3964.

✓ *"Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures"* (The Franchise Rule), is available free from the Federal Trade Commission, 1405 Curtis St., Suite 2900, Denver, CO 80202, (303) 844-2271.

Legal Structure and Registration

When you start your business, you must decide what legal structure it will have. The choices of business format in Colorado are sole proprietorship, general partnership, limited partnership, corporation including S corporation, and limited liability company. There are several issues which you should consider when determining the legal form of your business. First, to what extent will you be personally at financial and legal risk? Second, who will have the controlling interest in the business? Third, how will the business be financed? There are advantages and disadvantages to each legal structure. As a new business entrepreneur, you should examine all the characteristics and determine which is the most suited to your needs.

Choosing the most appropriate legal form for the business will require careful assessment of the characteristics of each form, along with the needs and desires of those starting the business

Sole Proprietorship

A Sole Proprietorship is a business owned and operated by an individual. There are no legal requirements to establish a sole proprietorship. If an individual is operating the business under a name other than their own legal name, the business name must be registered as a trade name with the Colorado Department of Revenue.

The primary legal characteristic of a sole proprietorship is that the proprietor is personally liable for all the business debts. If the business is unable to meet its financial obligations, creditors may pursue the personal assets of the owner. The sole proprietor is generally limited to financing the business by using their own assets and/or borrowing money. Borrowing money will require periodic loan payments regardless of whether the business is making money. Therefore, the fact that the owner's personal assets are at risk is an important factor. All profits and losses of the business are reported directly on the owner's personal income tax return.

General Partnership

A General Partnership is a business owned by two or more individuals. It is recommended that a general partnership prepare a partnership agreement which outlines the business's structure. There is no requirement to file the agreement with any state or federal agency. If the partners are operating the business under a name other than their own legal names, the business name must be registered as a trade name with the Colorado Department of Revenue.

The partners in a general partnership are personally liable for all business debts. Even if the partnership agreement specifies a defined split in profits, each partner is 100% responsible for all liabilities. The personal assets of any one or all of the partners may be attached to cover the partnership's liabilities. A partnership is financed through the capital contributions of the partners and by borrowing money. The profits and losses of the business are reported annually on federal and state partnership returns. The partners are individually responsible for the taxes on their personal income tax returns. Profits and losses may be divided among the partners in whatever manner determined by the partners.

Limited Partnership

A Limited Partnership is a business owned by two or more individuals in which some of the partners have limited liability protections. There must be at least one general partner who remains personally responsible for all the partnership's liabilities. The liability of the limited liability partner(s) is limited to their ownership investment in the partnership. The limited partner(s) do not contribute to the day to day operation of the business; that is the role of the general partner(s). Limited partnerships are created by filing a *"Certificate of Limited Partnership"* with the Colorado Secretary of State.

A limited partnership is financed by partner contributions and borrowing. Partner contributions may include cash, property or performance of service. In addition, a limited partnership may raise capital by selling additional limited partnership interests in the business.

Corporation

A Corporation is a legal entity which exists separately from the people who create it. A corporation is owned by its shareholders and run by a board of directors elected by the shareholders. In a large corporation, the directors hire corporate officers to manage the day to day operations of the business. In a small corporation, the directors and the corporate officers may be the same individual(s). In both situations the officers are considered to be employees of the corporation. Corporations are created by filing "Articles of Incorporation" with the Secretary of State.

There are three primary characteristics which distinguish a corporation from other legal structures. First, a corporation limits a stockholder's liability to the amount of investment in the corporation. However if the "corporate veil" has been pierced, corporate officers may be held personally responsible for the liabilities of the business. The "corporate veil" can be pierced in a number of ways; primarily by the personal actions or guarantee of an owner. Second, corporate profits may be subject to double taxation. A corporation must pay tax on income as a separate legal entity. If profits are distributed to shareholders, they are subject to taxation as part of the individual shareholder's income. Third, if a shareholder is a working officer in the corporation, they are considered to be an employee and must be paid a "reasonable wage" which is subject to state and federal payroll taxes.

A corporation must comply with the Colorado Corporation Code. Among the requirements of the Code are the following:

✓ *"Articles of Incorporation"* must be filed with the Secretary of State;
✓ The corporation must adopt bylaws;
✓ A corporation must adhere to certain corporate formalities including procedures for shareholder meetings, the election of the board of directors, maintenance of corporate records and proper filings with the Secretary of State.

Although many of the requirements may seem unnecessary for a small corporation, compliance is essential to maintain the limited liability enjoyed by the shareholders.

A corporation may raise capital to begin the business by two different means. Equity financing involves the issuance of shares of stock, which represent ownership in the business. Stock may be issued in exchange for cash, property, labor or services rendered. The primary advantage to the corporation of equity financing is that the corporation is not required to repay the principal or interest. Instead, the shareholder acquires an interest in the business and may share in its future profits.

When issuing stock, a corporation should be aware that there are various types or classes of stock. Different classes of stock grant the shareholder different rights when profits are distributed.

A corporation may also acquire capital by borrowing money. Debt financing is attractive to the investor because the corporation is legally obligated to repay the principal and interest. Interest payments are deductible to the corporation. However, debt financing may be difficult or impossible for a new corporation which has little or no current earnings. A loan may require the personal guarantee of the corporate officer(s) who may then be held personally responsible for the repayment of the loan.

Articles Of Incorporation

It is not required to use an attorney to file articles of incorporation; however, the incorporators should educate themselves thoroughly regarding all aspects of a corporation if an attorney is not used. The following are basic definitions related to filing articles of incorporation and should be used as a guide only. For example, common stock and preferred stock are the two basic classes of stock which a corporation may issue; however, there are other classes and combinations of classes possible. Definitions are listed as the concepts appear on the Articles Of Incorporation which must be filed with the Secretary of State. Articles of Incorporation may include additional information along with the Secretary of State's form regarding the management, structure, purpose and goals of the corporation.

Corporation Name is the name you wish to call your corporation. The name must include the word corporation, company, incorporated or limited or an abbreviation of one of these words. The name may not be the same as or deceptively similar to any existing corporation. You may inquire regarding name avail-

ability in person or through the mail, Secretary of State,1560 Broadway, Suite 200, Denver, CO or via fax 1-900-555-1515. There is a $5 charge for mail and fax searches. Payment should be included with mailed requests; the charge will appear on you phone bill for faxed requests.

Cumulative Voting grants each shareholder a total number of votes for electing board of directors equal to the total number of shares owned times the number of directors to be elected plus one vote. Votes can be distributed among the directors to be elected or concentrated on one candidate.

Duration - the life of a corporation is perpetual unless otherwise stated in the articles of incorporation. This means that a corporation will exist for an indefinite period of time, potentially forever, unless a specific number of years is stated. Most corporations are perpetual in duration.

Pre-emptive Rights entitle each shareholder the right to maintain the same proportion of ownership if additional stock is issued. If a stockholder owns 25 percent of current outstanding stock, they would have the option to purchase 25 percent of new issues before the stock is offered to anyone else.

Common Stock normally has the following characteristics:
✓ The right to vote for the board of directors;
✓ The right to receive dividends when declared by the board of directors;
✓ The right to share in the distribution of assets, after creditors and perferred stock, if the corporation is liquidated;
✓ The right to subscribe for additional shares in the event the corporation decides to increase the amount of stock outstanding.

Preferred Stock is normally associated with the following characteristics:
✓ No voting rights;
✓ Preference over common stockholders for receiving dividends;
✓ A preference over common stockholders, after creditors, in the distribution of assets if the corporation is liquidated;
✓ The stock may be repurchased by the corporation at the option of the corporation.

Authorized Shares are the total number of shares which the corporation has the authority to issue. If there is more than one class, list the number of shares in each class.

Par Value stock must have a stated value in the articles of incorporation. The stock cannot be issued unless par value is paid to the corporation.

No Par Value (NPV) stock is issued at a value determined by the board of directors at the time of issue. Generally, the value is determined by whatever price the market will bear when the stock is issued.

A Registered Agent may be an individual or another corporation who represents the corporation. Although a post office box may be included, the registered agent must have a physical address on record at all times with the Secretary of State. The address may or may not be the corporation's place of business.

A Board of Directors must have at least three members unless there are only one or two stockholders. In that case, the number of directors must equal the number of stockholders. Directors must be at least 18 years of age.

Incorporators are the individuals who perform the initial steps of incorporation. They may or may not be involved in the corporations activities after the formation of the corporation. Incorporators must be at least 18 years of age.

By-Laws are the rules by which a corporation is managed and regulated. The by-laws are adopted and amended by the board of directors.

S Corporation

An S Corporation is not actually a separate form of legal structure, but rather a special tax status granted to a corporation to avoid double taxation. An existing corporation applies to the IRS to be treated as an "S Corporation." An S Corporation does not pay corporate income taxes, but divides the expenses and income among its shareholders. Individual shareholders report profits and losses on their personal income tax returns. It is important to note that the corporation must file the *"Articles of Incorporation"* with the Secretary of State before it can apply to the IRS for S status.

There are restrictions on the organization and activities of an S Corporation:

✓ It must be a domestic corporation. It cannot be a member of an affiliated group of corporations and may not have a subsidiary. It cannot be a domestic international sales corporation, a financial institution that takes deposits or makes loans, or a corporation which takes tax credits for doing business in a U.S. possession.
✓ It may only have one class of stock issued and outstanding.
✓ It may not earn more than 25 percent of its gross receipts from passive investment income during any three year period. Passive investment income includes royalties, rents, dividends, interest, annuities, and sales or exchanges of stocks or securities.
✓ It must have a tax year ending December 31.
✓ It may have a maximum of 35 shareholders. Only individuals and their estates, and owners or beneficiaries of certain trusts may be shareholders. Shareholders must be U.S. citizens or resident aliens.
✓ All shareholders must agree to elect S Corporation status.

A corporation may elect S Corporation status by filing with the IRS on form 2553, *"Election by a Small Business Corporation."* Generally, the election must be filed by March 15th to be effective for the current tax year. Once elected, S Corporation status will continue until the shareholders revoke the choice or a corporation no longer meets the qualifications.

For more specific information about qualifying and applying for filing as an S Corporation contact the IRS at 600 17th Street, The Dominion Plaza, 12th Floor, South Tower, Denver, CO 80202-2490. (303) 825-7041 or 1-800-829-1040.

Limited Liability Company

Limited Liability Company (LLC) is a new form of business structure. An LLC combines the concepts of partnerships for tax purposes and corporations for liability purposes. The IRS has determined that LLCs will be treated as partnerships for income tax purposes. The liability for all members of a limited liability company is limited to their personal investment unless it could be shown that the "corporate veil" was pierced. The "corporate veil" can be pierced in a number of ways; primarily by the personal actions or guarantee of an owner. LLCs are created by filing "Articles of Organization" with the Secretary of State. If you will be doing busines outside the State of Colorado, you should be aware that it is a recognized legal structure in only a limited number of states. Unlike a corporation which may exist "forever," an LLC may only exist for a specified duration limited to 30 years. There may also be limitation on the transferability of ownership in certain situations. It is recommended that you consult a knowledgeable legal professional if considering the formation of an LLC.

Where to Register

Department Of Revenue—If you are a sole proprietor or general partnership and will be doing business under a name other than your own legal name(s), you must register a trade name with the Department of Revenue. Registration of the trade name does not grant exclusive rights to the use of the trade name. Sole proprietors and general partnerships gain exclusive rights to the use of a trade name only through the use of the name over a period of time. If you want to find out if a name is already being used call the Department of Revenue, (303) 534-1208.

There are two forms which you may use to register a trade name. If your business will not have any sale of tangible products or any employees, you may use form DR0592, *"Trade Name Registration."* If you will have sales or employees, you should use form CR100, *"Colorado Business Registration"*. The CR100 will register your trade name as well as open your sales tax license, state wage withholding and unemployment insurance accounts. If the appropriate form was not included with your Start-Up Kit, it can be obtained from the Department of Revenue, (303) 534-1208, or through the Small Business Hotline, (303) 592-5920 or 1-800-333-7798.

Secretary Of State—If your business will be a Limited Partnership, Limited Liability Company or Corporation, you must file with the Secretary of State, 1560 Broadway, Suite 200, Denver, CO 80202, (303) 894-2251. You should not register trade names for these businesses with the Department of Revenue. If you do business under an additional name you must file a *"Certificate of Assumed or Trade Name"* with the Secretary of State. If you are outside the Denver metro area, you can obtain the original filing paperwork and trade name forms for the Secretary of State through the Small Business Hotline, 1-800-333-7798.

Corporations, Limited Partnerships, and Limited Liability Companies organized outside of Colorado can obtain forms for authority to do business in Colorado from the Secretary of State, 1560 Broadway, Suite 200, Denver, CO 80202, (303) 894-225.

Internal Revenue Service—All forms of legal structure, except sole proprietors with no employees, must obtain a Federal Employer Identification Number (FEIN). The FEIN is your federal tax ID number. You can obtain your FEIN by filing the SS-4 form with the IRS, Ogden, UT 84201. If it is necessary to obtain your FEIN immediately, fill out the form, then call (801) 620-7645. If the SS-4 was not included with your Start-Up Kit, it can be obtained from the IRS (303) 825-7041 or 1-800-829-1040 or through the Small Business Hotline, (303) 592-5920 or 1-800-333-7798. If you are a sole proprietor, with no employees, your federal tax ID number is your social security number.

In Summary

When starting your own business, you must carefully choose the appropriate legal structure for your business. You should examine the characteristics of each structure along with the needs and desires you have for your business. If you will own and operate as an individual and will not require a great deal of capital, the informality of a sole proprietorship may be the most appropriate. If you will be going into business with someone else, a general partnership offers the means for pooling all your resources and sharing control of the business. There is relatively little formality required to establish and run the business, and control remains with the partners. Starting a limited partnership gives you the ability to acquire additional capital while avoiding the need to borrow while maintaining control of the day to day operations of your business. Sole proprietors and general partners do have a significant amount of liability exposure.

If you decide to form a corporation, the required formalities may be a bit unwieldy for a small business just getting started. While the limited liability enjoyed by shareholders may appear attractive, most creditors will probably require a personal guarantee as collateral anyway. However, the ability to raise capital by issuing stock may be a very practical means of financing the business.

If you organize as a limited liability company, you may enjoy the benefits of liability protection like a corporation but with a more simplified tax structure like a partnership. However, limited liability companies are a new business structure which is not recognized throughout the U.S. and some tax questions have not yet been completely clarified.

As you decide upon your legal structure, you should carefully evaluate both your present and future needs for operating your business. To avoid duplication of legal expenses, licensing and paperwork, analyze your various options and choose the business structure that will meet your long term needs rather than choosing a business structure solely for its short term convenience.

Employer Responsibility

Employees vs. Independent Contractors

As your business grows you may ask, "Should I hire full or part-time employees or should I hire subcontractors to perform specific jobs on an as-needed basis?" If you hire contract labor, your paper work is much easier. But just calling someone contract labor doesn't make them so; and if you incorrectly classify those working for you, you may end up paying substantial penalties and back taxes to the IRS and the State of Colorado.

Most individuals who work for you will be considered either common law employees or independent contractors. Unfortunately, there are many state and federal laws which 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". The following are general definitions for common law employees and independent contractors.

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 (employee, subcontractor, day laborer, etc.) when determining if someone is a common law employee. 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 single most important characteristic of independent contractors is freedom from control.

The IRS uses a list of 20 factors to determine whether a worker is a common law employee or an independent contractor. The Colorado Unemployment Insurance - Liability Unit and the Division of Workers' Compensation use similar guidelines. The following is a brief summary of the basic characteristics which describe employees and independent contractors. The importance of each factor varies depending upon the type of business and the type of services a worker performs.

- ● An employee is paid on a regular basis, e.g., hourly, weekly, etc or by the piece.
- ■ An independent contractor is paid by a set price, the job or straight commission.
- ● An employee may have assistants who are paid for by the employer.
- ■ An independent contractor hires, supervises and pays for their own assistants.
- ● An employee's business expenses, including tools and materials, are paid for by the employer.
- ■ An independent contractor purchases their own supplies and provides their own tools and equipment.
- ● 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 must comply with instructions about where, when and how to work and may have regular supervision.
- ■ An independent contractor works according to a contract for the completion of a specific project. There is normally no regular supervision of specific methods and the independent contractor may set their own work schedule.
- ● 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 their own business premises.
- ● An employee receives training from the employer.
- ■ An independent contractor provides their own training.
- ● An employee performs services personally.
- ■ An independent contractor may subcontract all or part of a work assignment.
- ● An employee has an exclusive continuing relationship with an employer.
- ■ The services of an independent contractor are available to the general public, although a contract may limit service to one business for a limited period of time.
- ● An employee can quit their job without incurring liability or may also be fired.

■ An independent contractor cannot be terminated if working according to specifications of a contract and may incur liability if they do not complete contracted services.

● An employee's services are integrated into the employer's regular business operations.

■ An independent contractor may be part of a larger project but still functions separately.

If a worker is a common law employee, the employer is responsible for state and federal income tax withholding, social security taxes (FICA) and state and federal unemployment insurance taxes. All common law employees must be covered by a workers' compensation insurance policy from the very beginning of employment. No distinction is made between different types of common law employees; managers and supervisors are treated the same as line workers. There is no difference between full-time or part-time employees or employees hired for only a short period of time.

An independent contractor is responsible for their own self-employment taxes. If they have employees, the also have the obligation to comply with all employer responsibilities including workers' compensation insurance for their employees. If the independent contractor does not have and maintain workers' compensation insurance, the prime contractor is responsible for providing coverage. The prime contractor may recover from the independent contractor the cost of providing workers' compensation insurance to the independent contractor's employees.

If you are not sure whether your workers are employees or independent contractors you will need to contact the IRS, the Colorado Division of Workers Compensation and the Unemployment Insurance Tax Liability Unit of the Colorado Division of Employment and Training for a determination of an actual employer-employee relationship. Potentially, a worker could be considered an employee by one agency and an independent contractor by another. Form SS-8, "*Determination of Employee Work Status for Purpose of Federal Employment Taxes and Income Tax Withholding,*" should be filed with the IRS, (303) 825-7041 or 1-800-829-1040. Form UITA-9, "*Worker Relationship Questionnaire,*" should be filed with the Unemployment Insurance Liability Unit, (303) 839-4922. You should contact the Division of Workers' Compensation, (303) 764-2929, directly regarding your workers' compensation liability.

Special Employment Situations

Statutory Employees—Commissioned delivery drivers, insurance agents, full-time commissioned sales agents of products for resale or for use in the buyer's business operation, and individuals who do piece work with materials supplied by the employer are considered to be statutory employees by the IRS. The employer is not required to withhold federal income tax from payments. However, if the contract states that an individual must perform the services personally, that the individual will perform the service on a continuing basis and that the equipment will be supplied by the employer, then the payments are subject to FICA. Payments to commissioned delivery drivers and sales agents are subject to unemployment insurance tax. Because statutory employees are similar in some respects to both common-law employees and independent contractors, you should contact the Colorado Division of Workers' Compensation directly regarding your workers' compensation liability, (303) 764-2929.

Children And Spouses—If your business is a sole proprietorship, your children who work for your business are not considered to be employees by the IRS and are not subject to FICA until age 18, or until age 21 if the business is conducted in your private home. Federal unemployment does not cover services performed by children under the age of 21 who work for their parents. It is not necessary for the children to be claimed as dependents. Wages may still be subject to income tax withholdings. Wages paid to a spouse are subject to income tax withholding and social security taxes (FICA) but not to federal unemployment insurance taxes. All wages paid to a child or a spouse are subject to withholding taxes, FICA and state and federal unemployment insurance taxes if the parent/spouse's business is a partnership or a corporation. Workers' Compensation insurance must be provided for family member/employees.

Corporate Officers—Generally, working corporate officers are considered employees by the IRS and may not be paid through a distribution of dividends only. They must be paid a "reasonable wage or salary." All wages are subject to federal and state wage withholding, FICA, and unemployment insurance taxes. Corporate officers who own more than a ten percent share of the business may elect to reject workers' compensation coverage. These rules apply to both C and S corporations.

Churches And Charitable Organizations—The employees of charitable 501(c)(3) tax-exempt organizations may be subject to special exemptions. All wages paid to a common-law employee are subject to federal and state income tax withholdings. All wages are subject to social security tax unless wages are less than $100 for an entire calendar year or are paid by a church or a church controlled organization which opposes payment of social security taxes for religious reasons. 501(c)(3) tax-exempt organizations are exempt from payment of federal unemployment tax. All employees must be covered by workers' compensation insurance regardless of 501(c)(3) status.

Leased Employees—An alternative to hiring your own employees is to contract for workers from a temporary employment agency or an employee leasing agency. You pay the agency a fee to provide the number and type of employees you need and specify the conditions they must work under but the individual workers remain employees of the agency. The agency is responsible for all payroll taxes, insurances, and workers' compensation. However, If a leasing company defaults in payment of unemployement insurance, the client company is then responsible for payment of unemployement insurance. A temporary agency is used when workers are needed for a "short" period of time. Leasing agencies provide employees under contract on a permanent basis.

FREE CLASS ON PAYROLL TAXES
the 2nd and 4th
Wednesday of every Month
600 17th St., Denver

sponsored by
U.S. Internal Revenue Service
Colorado Department of Revenue
Colorado Department of Labor & Employment
Social Security Administration
Small Business Administration

Call (303) 446-1660 for Reservations

Household Employees-- If you hire someone to work in your own home, you may have responsibilities as a household employer. If the employee earns over $50 a quarter, you are responsible for social security and medicare taxes. If the employee earns over $1000 in a quarter, you will also be repsonsible for unemployement insurance. The law does not require that you withhold federal or state income taxes for your employee; however, you may do so voluntarily if requested by your employee and they complete Form W-4. Workers' Compensation Insurance must be provide for household employees who work 40 or more hours per week or 5 or more days per week. For additional information regarding your responsibilities as a household employer, call the IRS, (303) 825-8041 or 1-800-829-1040 and request Publication 926, "Employment Taxes for Household Employers."

Employer/Payroll Registration Forms

Form SS-4—Federal form SS-4 is the application for your federal employer identification number (FEIN). Your FEIN is used to set up your federal income tax withholding, social security withholding (FICA) and federal unemployment insurance tax account (FUTA), through the IRS. If you need your FEIN immediately, fill out the form then phone the IRS in Ogden, Ut, (801) 625-7645 (this is NOT a toll free call), 7:30 A.M. - 7:00 P.M., Monday - Friday. The IRS will ask for the information you have placed on the form, then assign your FEIN. The completed SS-4 must be mailed to the IRS, Ogden, UT 84201, within five working days. If the FEIN is not needed immediately, you may mail the form without calling. You will receive a number in approximately four weeks. Completion of the SS-4 does not automatically set up your federal payroll accounts. Call (303) 825-7041 or 1-800-829-1040 after you have received your FEIN to open your new employer accounts.

The Colorado Employer Registration Form, CR100—The CR100 is a multi-use form which may be used to open a number of accounts. If you will have employees, this form will open your state wage withholding account with the Colorado Department of Revenue and your state unemployment insurance account with the Department of Labor and Employment. You may also use this form to register your

trade name as a sole proprietor or a general partnership and to obtain a state sales tax license.

INS Form I-9—One form which you must keep in your employees' personnel files is the Immigration and Naturalization Service's I-9 form. This paperwork was devised to insure that employers do not hire illegal aliens. The paperwork is not difficult, but is required. The I-9 form must be completed within three working days after employment begins. Employees must submit documentation which verifies residency to their employer. All documentation unavailable on the hire date must be obtained within twenty-one days.

The penalties for failing to comply with this requirement begin at $250 for each unauthorized employee and can quickly reach $10,000 per violation. For further information regarding the I-9 form, contact the INS at 1-800-755-0777.

Form W-4—Each employee must date and sign a completed W-4. You should include it in the employee's personnel file as it will provide a record of his or her proper name, address, and social security number. The W-4 provides you with information regarding the employee's marital status and the number of exemptions claimed to determine the proper federal and state income tax withholdings from your employee's payroll checks. Having this form on file is not only required by the IRS, but is also evidence in disputes that could arise with the IRS or the employee. The W-4 is required to be filed with the IRS only in special circumstances. If any of your employees claim exempt, including students, they must fill out a new W-4 every year. Regular employees should fill out a new W-4 whenever they move or there is a change in their tax status, i.e. get married or divorced, add/lose dependents, or need to change the number of their exemptions.

Payroll Tax Filing Requirements and Forms

Wage Withholding And Social Security/Medicare Taxes—If you have employees, you will be responsible for withholding income taxes and social security/medicare taxes from your employees wages. As the employer, you must pay an equal share of social security/medicare taxes. Circular E, the federal "Employer's Tax Guide," is updated annually and should be used to determine the correct tax amounts. The amount of taxes withheld will determine how often you must deposit the taxes with your bank. Deposits are made using form 8109. At the end of each quarter, you must file form 941 to report the total employee wages and taxes deposited for your employees.

If you have employees, you must withhold Colorado withholding tax from all employees working in Colorado, including non-residents. DRP1098, *"Colorado Income Tax Withholding Tables,"* should be used to determine the proper withholding rates for your employees. The state requires that once you have collected more than $400 in state wage withholding, you must file the total collected for the state with the state when you file your next federal return. If at the end of a quarter you have still not collected $400 in wage withholding, you must file with the state regardless of the amount due. If you annually withhold more than $50,000 in state wage withholding, you must file via Electronic Funds Transfer(EFT). If you annually withhold less than $50,000, you may elect to file via EFT or file coupon form DR 1094 with a check or money order.

Unemployment Insurance—Unemployment insurance is a fund established by law to provide benefits to employees who lose their jobs through no fault of their own. Several factors determine the amount of benefits which are paid every two weeks to eligible persons actively seeking employment. As an employer, you will be required to pay both state and federal unemployment insurance taxes. Unemployment insurance tax is paid by the employer on all employees. The federal unemployment insurance rate is 6.2% on the first $7,000 in wages paid to each employee every year. However, as a new employer, you should qualify for a 5.4% credit for an effective rate of 0.8%. If at the end of a quarter your federal unemployment tax liability is over $100, it must be deposited with your bank using form 8109 before the end of the next month. If your liability is less than $100, the liability may be carried over and added to the next quarter. At the end of the year, you must file form 940 or 940EZ to report your total unemployment tax liability for the year. If your liability at the end of the year is less than $100, you may deposit it or pay it with Form 940. Form 940 and your final unemployment tax payment are due by January 31.

All Colorado employers must also pay state unemployment insurance tax. State unemployment is paid on the first $10,000 in wages paid to each employee during every calendar year. The current state unem-

ployment insurance tax rate for new businesses is 2.7% plus a 0.3% surcharge for an effective rate of 3.0% (NOTE: The construction industry may pay a higher rate). You must file Form UITR-1, Unemployment Insurance Tax Report, and UITR-1(a), Unemployment Insurance Report of Workers Wages, every quarter regardless of the amount of unemployment tax due. At the end of each year, you will receive notice of your tax rate for the next calendar year based on your business's unemployment claims history. If you purchase an existing business, you may acquire that business's experience rating and be liable for any delinquent unemployment insurance taxes. You may receive credit for taxes paid by the previous owner on employees during the current year.

Occupational Priviledge Taxes—The Cities of Aurora, Denver and Greenwood Village have occupational privilege taxes, or "head taxes," on individuals who work within their city limits. This tax is collected through employer and employee contributions. You must pay the employer portion of the tax on yourself regardless of whether you are a sole proprietorship, partnership or corporation. If your business is located within one of these three cities you must set up an account to pay this tax. If the appropriate form was not included in your Start-Up Kit, it can be obtained from the city clerk or from the Small Business Hotline (303) 592-5920 or 1-800-333-7798.

For further information on Workers' Compensation Laws contact the Colorado Division of Workers' Compensation— (303) 764-2929

Employee W-2s—At the end of the year, you are responsible to report wage and tax withholding information with W-2 forms. Copies of the W-2 must be sent to your employee no later than January 31. Copy A of Form W-2 must be sent to the Social Security Administration (SSA) by February 28 with Form W-3. If you file 250 or more Form W-2s, you must file the information with the SSA via "magnetic media." For your Colorado employees, you must file DR1093, Transmittal of State W-2s. If you withheld more than $11,000 in state taxes for your employees, you must report W-2 information to the state via "magnetic media." Magnetic media includes magnetic tape and computer diskettes. For more information regarding magnetic media contact the Department of Revenue (303) 534-1208.

Independent Contractor 1099s—If you have determined that your workers are independent contractors, you are not required to withhold or pay any taxes on their behalf. However, you must keep track of how much you pay them and file Form 1099 for each person to whom you paid over $600 during the year. The independent contractor must be sent their Form 1099 by January 31. Copy A of Form 1099 must be sent to the IRS by February 28 with Form 1096. If you file 250 or more Form 1099s, you must file via "magnetic media."

Payroll Records And Audits—It is important to keep complete and accurate employee/payroll records and to retain the records for at least five years. The IRS, the Immigration and Naturalization Service, the Colorado Department of Revenue and the Colorado Department of Labor & Employment all have the authority to audit your records. Remember, your liabilities begin as soon as you hire an employee.

Workers' Compensation

Workers' Compensation Is mandatory insurance which provides coverage for medical expenses and lost wages due to a job-related injury or occupational disease. The cost of coverage for employees must be paid by the employer. All employees must be covered beginning with the very first employee. Corporate officers who actively work in a corporation and members who work in a Limited Liability Company must be covered unless they own at least ten percent of the business **and** the formally elect in writing to reject coverage. The election to reject coverage is filed with the insurance carrier. If there are no other employees, the election to reject coverage should be filed using form WC43 with the Division of Workers' Compensation. According to state law, a Sole proprietors and partners in a partnership have the option of electing coverage for themselves although it may be required by a prime contractor.

You can obtain workers' compensation insurance from an insurance agent or the Colorado Compensation Insurance Authority (CCIA), 720 South Colorado Blvd, Suite 100 N, Denver, CO 80203, (303) 782-4000 or 1-800-873-7242. CCIA is NOT a state agency. It is a state-owned insurance company that sells workers' compensation insuranc at cost.

Premium Cost—The cost of workers' compensation insurance coverage is based on units of $100 of payroll. The rate per $100 is based on the risk classification of your employees and your experience rate and is determined by your insurance carrier. At the beginning of the year and when you start your business, you will be required to estimate your payroll for the coming year. Your insurance carrier will require you to pay your premiums in advance similar to car or home owner's insurance.

Premium Adjustments—At the end of each year, the actual payroll of your employees is determined either by audit or by completing a self examination report. The actual cost of insurance is compared to the advanced premiums paid and the difference will be charged or refunded to you. Some policies can be assigned a quarterly adjustment basis. This type of policy is normally limited to seasonal types of businesses, such as construction, where an annual estimate of payroll is difficult to determine. This policy will require a deposit based on a percentage of the annual premium. The deposit is held by the carrier for the life of the policy. Upon cancellation, the entire deposit is credited to your account. You are required to report and pay premiums for actual wages paid each quarter.

Claims—You must file an accident report with your insurance carrier within 10 days of a work-related accident. It is the injured employee's responsibility to report the accident to you in writing within four days. If the employee is physically or mentally unable to provide notice, it is the responsibility of the immediate supervisor to submit written notice. Injured workers have two years to file claims for compensation with the Colorado Division of Workers' Compensation.

Injured workers may receive medical and compensation benefits. Medical benefits include unlimited payment for all **authorized**: medical, hospital, and surgical costs; prescriptions; medical apparati; and prosthetic devices. Compensation benefits include reimbursement of up to two-thirds of an employee's lost average weekly wage for a specified period, a lump sum payment or both based on the type of injury/disability.

Risk Management And Accident Prevention—Safety and accident prevention assistance is available from your insurance carrier. This service may include safety programs, cost control recommendations and a review of your accident and loss history. In addition, employers are encouraged to take part in the Colorado Division of Workers' Compensation Containment Program. Employers who have had a qualifying cost containment program in place for one year receive cost containment certification. Certification in this program can result in a reduction in premiums of 5%-10%. As a new business, you should consider the implementation of a cost containment program beginning with your very first employee. Contact the Cost Containment Program, 1120 Lincoln, Suite 1200, Denver, CO 80202, (303) 764-2974 for more information.

Employee "Right to Know" Laws

Employee "Right to Know" laws apply to all businesses with employees who routinely work with hazardous chemicals, such as contractors, manufacturers, or industrial processors. The law is intended to make sure that all hazardous and toxic chemicals that are produced, imported or used in the workplace are properly evaluated; and if they pose a hazard to employees, employees must be notified through a "Hazard Communication Program." The goal of the law is to reduce the growing number of injuries, illnesses and deaths caused by exposure to hazardous chemicals in the workplace.

A "Hazard Communication Program" MUST include:

✓ A Material Safety Data Sheet (MSDS) for each hazardous substance in the workplace must be on file and must be available to employees. The MSDS must be provided by the manufacturer/importer of each chemical and it should accompany or precede each chemical shipment. If an MSDS is unclear or incomplete, questions should be addressed to the manufacturer/importer.

✓ Procedures must be established for labeling containers where hazardous chemicals and materials are used or stored. Labels must provide general hazard warnings and instructions for employee protection.

✓ An employee training program must be implemented. The program must include information on the hazards of each chemical, how to protect oneself against accidents, how to read labels and interpret a MSDS.

✓ A list of all hazardous chemicals used and generated in a business must be maintained. OSHA suggests that lists be compiled for each work area.

These regulations apply to businesses with employees who are exposed to hazardous chemicals and materials on a routine basis as part of their job. They do not cover, ". . . workers such as office workers or bank tellers who encounter hazardous chemicals only in non-routine, isolated instances."

If you are not sure if your business is covered by the law or to get specific information on the requirements for developing a "Hazard Communications Program", you should contact the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA), Federal Building, Room 1576, 1961 Stout Street, Denver CO 80202, (303) 844-3061.

The Americans With Disabilities Act (ADA)

The ADA extends civil rights protection to individuals with disabilities that are similar to those provided to individuals on the basis of race, sex, national origin, and religion. For small businesses, it guarantees equal opportunity for individuals with disabilities in employment and public accommodations. In the area of employment, the ADA is not an affirmative action program. Businesses must provide equal opportunity for employment to all qualified disabled individuals who can perform the essential duties of a job. Businesses may be required to make reasonable accommodations for disabled individuals who

Employer Posting Requirements

There are many state and federal posting requirements for employers. Some may only apply under certain circumstances, but several are required of all employers.

Anti-Discrimination Posters
Colorado Division of Civil Rights
1560 Broadway, Suite 1050
Denver, CO 80202
(303) 894-2997
1-800-262-4845

Equal Employment Opportunity Posters
EEOC
1845 Sherman Street, 2nd Floor
Denver, CO 80203
(303) 866-1300

Occupational Safety Posters
OSHA
1961 Stout Street, Room 1576
Denver, CO 80294
(303) 844-3061 or
(303) 844-5285

Polygraph Protection Act Posters
Minimum Wage Posters
U.S. Dept. of Labor, Wage-Hour Div.
1961 Stout, Room 615
Denver, CO 80294
(303) 844-4405
or
Colorado Division of Labor
Labor Standards Divisions
1120 Lincoln St., #1302
Denver, CO 80203
(303) 894-7541

Unemployment Insurance Posters
Division of Employment and Training
U. I. Tax Liability Unit
639 E. 18th Avenue
Denver, CO 80203-1483
(303) 839-4922

For Workers' Compensation Posters, contact your workers' compensation insurance carrier. You should prepare and post the following notice in 1/2 inch letter: *"If injured on the job, written notice must be given to your employer within four working days of the accident, pursuant to section 8-43-102(1) C.R.S."*

Employers are require to post or to notify workers in writing of when and where they will be paid.

are readily achievable. The Jobs Access Network (JAN) has been established to assist employers find low cost solutions to resolve employment accommodation problems. Call 1-800-526-7234 for free assistance.

Public accommodations, such as restaurants, hotels, theaters, doctors' offices, retail stores, museums, private schools and day care centers, may not discriminate on the basis of disability effective January 26, 1992. Businesses with fewer than 25 employees and gross receipts of $1 million or less were required to comply by July 26, 1992. Businesses with fewer than 10 employees and gross receipts of $500,000 or less had until January 26, 1993. Physical barriers must be removed if removal is readily achievable. If not, alternative methods of providing services must be offered, if those methods are readily achievable. "Readily achievable" is defined as actions that are easily accomplished and able to be carried out without much difficulty or expense. The courts are required to take into consideration the nature and size of a business in order to determine whether an action is readily achievable. The Architectural Access Board has established detailed guidelines for construction and remodeling, call 1-800-USA-ABLE (1-800-872-2253) for free assistance.

Two additional agencies that provide assistance with ADA are the U.S. Department of Justice and the Regional Disability and Business Accommodation Center (RDBAC). For more information regarding the legal enforcement of ADA contact the Coordination and Review Section of the Civil Rights Division, U.S. Department of Justice, Washington, D.C. 20035-6118, (202) 524-0301 VOICE, (202) 514-0381 TDD, and (202) 514-0383 TTD. The Regional Disability and Business Accommodation Center (RDBAC) is a private company in Colorado Springs which has received a government contract to provide information to disabled individuals and business regarding the ADA in the Rocky Mountain area. The RDBAC is primarily an information resource. However, it also provides training and direct technical assistance regarding the provisions of ADA. It will make referrals to other agencies as appropriate. For more information, contact RDBAC, 3630 Sinton Rd, Ste 103, Colorado Springs, CO 80907, (719) 444-0252 or 1-800-735-4232.

Employer Checklist

❑ Have you properly determined whether your workers will be employees or independent contractors?

❑ File the the Application for Employer Identification Number, Form SS-4, to obtain your Federal Employer Identification Number (FEIN). Once you have recieved your FEIN, call 825-7041 or 1-800-829-1040 to request your new employer information packet and to activate your FEIN account.

❑ File the Colorado Business Registration Form, CR100, to open your state wage withholding and unemployment insurance accounts. You will recieve prepinted coupons and information on how to file Colorado wage withholding from the Department of Revenue. The Department of Labor and Employment will send information and forms on how to file Colorado unemployement insurance. The two packets of information should arrive approximately four to six weeks after filing the CR100.

❑ Obtain the proper posters using the chart on the previous page as a guide.

❑ Determine whether you are responsible for any local employer tax or registration requirements by contacting the appropriate local authorities.

Additional Assistance and Information

For more information regarding your employer responsibilities, you should contact the various taxing authorities: IRS, 825-7041 or 1-800-829-1040; Colorado Department of Revenue, (303) 534-1208; Colorado Unemployment Insurance Tax Liability Unit, 839-4922; and the Colorado Division of Workers' Compensation, 764-2929.

Colorado Sales Tax

If you sell, rent or lease tangible personal property in Colorado, you must obtain a sales tax license. The type of license you need and the amount of tax you are required to collect depends upon who you are selling to and where and how you are doing business. A license is also required to rent accommodations for periods of less than 30 days.

Sales Tax Licenses

Retailer License—A retailer license is required if you are selling, renting or leasing your product to the end user of the product. If you will be doing wholesale and retail sales you only need a retailer license. A retailer license costs $16 for a two-year period plus a one time $50 deposit. The deposit will be automatically refunded to you once you have collected and remitted a total of $50 in state sales tax to the Department of Revenue. 501(c)3 charitable organizations are not required to pay the $50 deposit when they obtain their license.

If you sell, rent or lease tangible personal property, or rent accommodations for less than 30 days, you need to collect retail sales tax.

Wholesaler License—A wholesaler license is required if you are selling your product to another business that will resell your product or as an ingredient in another product which will be resold. A wholesaler license costs $16 for a two year period. If your business is primarily wholesale, you may have up to $1,000 in retail sales per year and will not be required to obtain a retailer license. If you will have more than $1,000 in retail sales per year, you should get a retailer license and record your wholesale sales under your retail license.

Single Event—If you plan to attend a single event at a location other than your regular business location, you must obtain a single event license. A single event license costs $8, unless you already have a wholesaler or retailer license, than there is no charge.

Multiple Event License—If you attend more than one event during a two-year period, you should obtain a multiple event license. A multiple event license costs $16, unless you already have a wholesaler or retailer license, and than there is no charge.

Local Licenses—Most city sales taxes are collected for the city by the state. However, there are 42 home rule cities in Colorado which have their own city sales tax license for retail sales conducted within their jurisdiction.

Fees—All state sales tax licenses are $16 and are issued for the same two year period. Each two year period is divided into four six month "quarters." The actual cost of your initial license will be prorated depending upon the quarter in which you start your business.

Collecting Sales Tax

Rates—If you will be selling a product to the end user, you must collect sales tax. The amount of sales tax you collect depends upon the taxing districts where your business is located, the type of business you are in and how the transaction is completed. To determine the amount of tax you must collect, you need to add together the various rates that apply to your business.

State—The 3.0% state sales tax must be collected by all businesses selling tangible, personal property located in Colorado.

RTD/CD/BD—Businesses located in the Denver Metro area are required to collect 0.6% for the Regional Transportation District (RTD), 0.1% for the Scientific and Cultural Facilities District (CD), and 0.1% for the Baseball Stadium District (BD) for a total of 0.8%. The RTD/CD/BD area includes all of Denver, Boulder and Jefferson counties, the western portions of Adams and Arapahoe counties and the northeast portion of Douglas county including Highlands Ranch.

County—39 of Colorado's 63 counties have established county sales taxes. All county taxes are collected by the state.

City—There are 192 cities that have city sales tax rates. Most small cities sales taxes are collected by the state. However, most of the larger cities collect the city portion of the sales tax directly from the vendor and require a separate license.

Lodging—The following counties have a 1.9% tax on lodging services: Alamosa, Archuleta, Chaffee, Clear Creek, Costilla, Delta, Gunnison, La Plata (Durango omitted), Logan, Mineral, Moffat, Montezuma, Rio Blanco, Rio Grande, Saguache. The rate in Bent county is 0.9%. There is also a special lodging tax in the City and County of Denver.

Special Taxes—A sales tax of 0.5% is collected in the southeastern portion of Jefferson county for the local improvement district. Douglas County collects a 1.0% tax on short-term rentals, less than thirty days.

For more information about sales tax responsibilities or existing sales tax accounts, contact the Colorado Department of Revenue (303) 534-1208

Example—To determine the amount of tax you must collect, add all the rates that apply to your location and type of business. For example, if you have a restaurant in the City of Lakewood, you must collect 3.0% for the state, 0.8% for RTD/CD/BD, 0.5% for Jefferson county, and 2.0% for Lakewood. Your total sales tax rate would be 6.3%. DRP1002, "Sales/Use Tax Rates Lists all the various sales tax rates through out Colorado and should be used as a guide to calculate the sales tax rates for different locations.

Special Situations

Mail Order and Delivery—When you have a mail order business or you sell a product contingent upon delivery to another location, by state rules you must collect the taxes you have in common with the delivery location. For example, if your business is in Durango and your delivery site is in Durango, you must collect 7.0%; the same amount you would collect if it was purchased at your business location without delivery. There is no difference in the amount of tax collected. If your business is in Durango and you deliver to Grand Junction the only state collected taxes the two locations have in common is the 3.0% state sales tax; therefore, you would only collect 3.0%. However, Grand Junction is a "self collected" home rule city; therefore, it is recommended that you contact the city directly regarding the collection of the city sales tax if your business will be doing the actual delivery into Grand Junction or any other "self collected" home rule city. Furthermore, if you have a branch of your business in the destination location, you must collect all the taxes that would be normally collected by the branch location. In this example you would collect 7.75% based on the taxes collected in Grand Junction. The rule regarding branch locations and delivery applies to all locations, "self collected" home rule cities and state collected cities. Finally, with the exception of auto sales, if your customer takes possession of your product at your place of business, you must collect all the sales taxes for your area, regardless where your purchaser resides or intends to use the item.

Mobile Businesses—If your business involves sales at your clients address or is mobile you must collect the appropriate tax for each sales location. This will apply to many different types of businesses, including but not limited to: traveling salespersons, mobile locksmiths, and interior decorators. If this situation applies to you, you will not have a principal place of business and must collect the appropriate tax for each point of sale. You should obtain a retail sales tax license to collect all state taxes and may need several city sales tax licenses from the home rule cities where you do business. Department of Revenue Publication DRP 1002, Colorado Sales/Use Tax Rates, lists all state, county and city sales tax rates as well as addresses and phone numbers for home rule cites with separate licensing and collection procedures.

Craft Shows And Flea Markets—If you will be selling at events you must have a state multiple events license. If the event is held in a city that collects its own city sales tax, you may be required to obtain an additional city sales tax license.

Multiple Permanent Business Locations—If your business has multiple permanent branch locations, each branch must have its own license and collect the appropriate tax. Exception: vending machine operators are only required to have one license and report the appropriate tax collection under a single license.

Small Home Businesses—If you operate a small business from your home and your total annual sales are less than $1,000 per year, you do not have to obtain a state sales tax license. However, you must collect all applicable sales taxes and file a *"Combined Annual Retail Sales Tax Return,"* DR0100A, at the

end of each year. In addition, you will not be able to purchase inventory or supplies at wholesale without a license. If you are located in a home rule city, contact your city officials regarding your local sales tax requirements.

Sales Tax Fraud

It is illegal to use your sales tax license to obtain personal goods or assets which you will use in business tax free. Only goods which will be resold may be purchased exempt from sales tax. Sales tax must be listed separately from the purchase price on the items you sell on all invoices. Vending machines, bar drinks and mobile food cart vendors are exempt from this rule. It is illegal to advertise that you will make retail sales "tax-free" or to absorb the cost of sales tax.

Filing Returns and Payment of Taxes

Filing Requirements—Once you have obtained a sales tax license, the Department of Revenue will send you preprinted "Combined Retail Sales Tax Return" forms in a coupon booklet. If you have a wholesaler license, you will file annually. If you have a retail license and you collect less than $300 in sales tax each month, you must file quarterly. If you collect $300 or more in sales tax every month, you must file monthly. All sales tax returns are due the 20th of the month following the end of the taxing period, i.e., the return for April—June is due July 20. If the 20th falls on a Saturday, Sunday or Holiday, the due date is the next regular business day. If you have a single or multiple event license, an individual return must be filed for every event. Each return must be filed by the 20th of the month following the month in which an event is held. Tourism tax, County Lodging tax and city collected sales taxes are each filed separately. If your sales tax return is not filed or postmarked on or before the due date, you must pay a 10 percent penalty plus interest on the amount due. **YOU MUST FILE A SALES TAX RETURN FOR EVERY PERIOD, EVEN IF NO TAX WAS COLLECTED FOR THE PERIOD.**

Department of Revenue Service Centers

Colorado Springs, 3650 Austin Bluffs Pwy, Ste 188, (719) 594-8706
Denver, 1560 Broadway, Ste 1530, (303) 592-5920
Fort Collins, 300 E. Foothills Rd, (303) 223-1097
Grand Junction, 222 S. Sixth St, Rm 208, (303) 248-7140
Pueblo, 720 N Main St, Ste 402, (719) 542-2920

Confused About Sales Tax???

Sales tax classes are held on a regular. Sales tax classes include information on how and when to collect sales tax as well as how to fill out sales tax returns. In some locations, representatives from local home rule cities also present information on the collection and remittance of local sales taxes.

Colorado Springs:
the 1st Thursday of each month, 3:00 PM, 3650 Austin Buffs Pkwy.

Denver:
every Friday, 9:00 AM, 1560 Broadway, Suite 1550
the 2nd Thursday of each month, 6:00 PM, 1375 Sherman St.

Fort Collins:
the 3rd Thursday of each month, 2:00 PM, 300 E. Foothills Pkwy.

Grand Juction:
the 2nd Tuesday of each month, 2:30 PM, 222 S. 6th St.

Pueblo:
the 1st Wednesday of each month, 2;30 PM, Pueblo Public Library

For more information concerning how and when to collect sales taxes call (303) 534-1208 and/or your local home rule city.

Consumer Use Tax

Use tax is imposed on the storage, use or consumption, **in Colorado**, of tangible personal property upon which Colorado sales tax has not been paid. The amount of sales tax is measured by the purchase price or fair market value. The state use tax rate is three percent; the RTD/CD/BD rates total 0.8 percent and are paid with form DR252. County and city use taxes may also be due.

Sales Tax Summary

❑ If you will be selling any tangible personal property, you must obtain a sales tax license. If you are selling to the end user, you are a retailer. If you will be selling to someone who will resell your product or use it to make another product which is resold, you are a wholesaler. If you are doing both, it is only necessary to obtain a retailer sales tax license.

❑ Wholesaler and retailer licenses are $16 for a two year licensing period. The cost of a new license is prorated during the licensing period. There is a $50 deposit on retail licenses which is refunded once $50 in state sales taxes have been collected and remitted to the Department of Revenue.

❑ If a business has more than one location, each location must be licensed. The $50 deposit is only collected for the first location.

❑ If you will be selling products at an organized event, you are required to obtain an event license. A single event license is good only for a single event. A multiple event license is good for an unlimited number of events during the licensing period.

❑ A multiple event license costs $16 for a two year licensing period. The cost of a new license is prorated during the licensing period. A single event license costs $8. If a business has a retailer or wholesaler license, there is no charge for either a multiple event or single event license.

❑ If you will be located in a self-collected home rule city, you must contact the city regarding local licensing requirements.

❑ Determine the proper sales tax rate based on the location of your business.

State Sales Tax 3.0%

RTD/CD/BD(?) _____

County(?) _____

City(?) _____

Other(?) _____

TOTAL _____

❑ If you purchase items to use in your business or you use items which where originally purchased for resale, tax is due. The tax may be paid on your regular sales tax return or by filing a Consumer Use Tax Return, form DR 0252.

Income and Property Tax

This section outlines the general income tax laws which you will encounter when you own your own business. For more specific information you should contact the Internal Revenue Service, (303) 825-7041 or 1-800-829-1040 and the Colorado Department of Revenue, (303) 534-1209.

For more information on Colorado income taxes, contact the Colorado Department of Revenue, (303) 534-1208

Corporations

If your business is a corporation located in or "doing business" in Colorado, it is subject to state and federal corporate income taxes. In general, a corporation will be considered to be "doing business" when it has employees or business property in Colorado. If you will be filing as an S corporation, your business' income will be taxed as a partnership and will be exempt from corporate income taxes, although a corporate income tax return must still be filed. Working corporate officers are still treated as employees, even in an S corporation, and must be paid a reasonable wage which is subject to all payroll taxes, see the "Employer Responsibilities" section.

At the end of your corporation's fiscal year, you must figure its net taxable income or net loss. To do this, you subtract the operating expenses and "allowable deductions" from the gross income. The laws governing federal tax rates, allowable deductions, and losses change frequently. You should contact the IRS annually for the current applicable tax laws. IRS Publication 542, Tax on Corporations and Publication 589, Tax on S Corporations, are useful guides in determining your federal tax liability.

For more information on federal taxes, contact the Internal Revenue Service, (303) 825-7041 or 1-800-829-1040

Every corporation, including S corporations, "doing business" in Colorado or deriving income from Colorado sources must file a corporate income tax return with Colorado. Colorado taxable income is determined by adding and/or subtracting various adjustments to your federal taxable income. If your corporation is doing business in Colorado as well as other states, you must apportion to Colorado the portion of your income derived from sources within Colorado. There are two methods which may be used to determine state coporate income tax. Contact the Colorado Department of Revenue for more information, (303) 534-1209.

If you expect your federal tax liability to be $500 or more and/or your state tax liability to be $5,000 or more, you are required to file and pay estimated taxes during the year. A corporation that owes more than $500 in federal income tax or $5,000 in state income tax may be subject to penalties and interest.

If you receive dividends from your corporation, you must report it as income on your personal income tax return and pay the appropriate income taxes.

Partnerships

If your business is a partnership, you must file state and federal partnership income tax returns. The partnership as a whole is not required to pay income tax. Each partner in the partnership is responsible for their own self-employment taxes as an individual. The state and federal income tax returns are used to report your business's income and expenses, changes in your balance sheet and how profits or losses are shared by the partners. If you and your spouse run your business together and share in the profits, your business may be considered a partnership. You should record your respective shares of partnership income or loss separately for self-employment taxes. Doing this will usually not increase your total tax, but will give each spouse credit for social security earnings on which retirement benefits are based. IRS Publication, *Tax on Partnerships*, is a useful guide regarding partnership filing requirements and the allocation of income to the partners.

Self-Employment Taxes

If you are a sole proprietor or a partner in a partnership, you must file your own estimated self employment taxes. When you work for others as an employee, your employer withholds your taxes from your paycheck. As an employee, your employer pays half of your social security taxes and you pay half. When you are self employed, you must pay the entire amount. Estimated taxes are normally paid quarterly on actual income, if you do not have taxable income you do not have to pay estimated taxes. If you expect to owe the IRS more than $500 in federal taxes, you must make federal estimated tax payments. IRS Publication 533, Self-Employment Tax, is a useful guide in determining your estimated federal tax liability. If you expect to owe Colorado more than $1,000 in state taxes, you must pay state estimated tax payments. Estimated payments are made using federal form 1040-ES and Colorado form 104-ES.

Property taxes are due on Real Estate and Personal Business Property

Property Taxes

Property taxes are assessed on any real and/or personal property(land, buildings, furniture, equipment, etc.) which directly or indirectly produce income within your business. The County Assessor determines the value of property, using a market, cost or income approach. Property taxes are assessed on a percentage of actual value. To determine your property tax bill, multiply the assessed value by the local tax rate. The county assessor will mail a declaration schedule for property taxes after January 1st. Taxes must be paid by April 15th unless an extension has been obtained. The County Treasurer is responsible for mailing and collecting the actual property tax bill. Agricultural and natural resources are treated somewhat differently. You should contact your local county assesor regarding property taxes, personal and real estate, whenever you start a new business.

Enterprise Zones

An Enterprise Zone is defined as an economically depressed area of Colorado in which special tax incentives are offered to businesses that expand or locate in the zone. The purpose of the tax incentives is to encourage economic development in the zone. There are a number of tax credits which may be taken by businesses located within a zone, inluding credits for creating new jobs, investing new capital, research and development and the purchase of manufacturing equipment. Businesses should call the Department of Revenue at 866-5759 for more information regarding tax credits and exemptions.

There are currently 16 Colorado enterprise zones. An individual zone may include all of several counties in rural areas or small portions of a single county in urban areas. The exact boundaries of a zone and the certification of a qualified business within an enterprise zone are determined by the local administrators. Businesses should contact the Department of Local Affairs, 1313 Sherman, Room 518, Denver, CO 80203, (303) 866-2771 or the local administrator for more information.

Adams County	**(303) 450-5106**
Arapahoe County	**(303) 762-2353**
Denver	**(303) 640-7100**
East Central Colorado	**(719) 348-5562**
El Paso County	**(719) 520-6480**
Greeley/Weld Counties	**(303) 356-4565**
Huerfano/Las Animas	**(719) 846-4401**
Jefferson County	**(303) 271-6980**
Mesa County	**(303) 245-2926**
Northeast Colorado	**(303) 867-9409**
Northwest Colorado	**(303) 625-1723**
Pueblo County	**(719) 546-6000**
San Luis/ Upper Arkansas	**(719) 395-2602**
Southeast Colorado	**(719) 336-3850**
Southwest Colorado	**(303) 247-9621**
West Central Colorado	**(303) 249-2436**

Bookkeeping

Basic Record Keeping

It is imperative that you establish a record keeping system before the doors of your business open. Accurate books and records are essential for business planning and useful to management in making informed decisions. DON'T WAIT until its too late.

The record keeping needs of your business must be analyzed to determine the best bookkeeping system. All systems should provide the following information:

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

Each business has special needs that must be considered when establishing a bookkeeping system. Factors you should take into account include: legal structure of your business, your industry, the number of employees you have, the number of product lines or services and the number of locations your business operates.

The first step in setting up a bookkeeping system is the selection of the tax year or year end. The term "tax year" refers to the annual accounting period. The selection of a tax year is sometimes dictated by your legal structure. For instance, a regular corporation, i.e. C corporation, has no specific restrictions. However, S corporations, sole proprietors and partnerships must usually follow a calendar year. Be sure to consult an expert before making a decision, since tax laws are subject to change.

The second step is to select the method of accounting. The most common are the cash method and the accrual method. The cash method recognizes income and expenses when the cash is received or disbursed. It provides the most flexible means for deferring taxable income into future tax years. The accrual method recognizes income and expenses based on when income is earned or an obligation to pay a debt is incurred. It generally provides better matching of revenue and expenditures.

The method of accounting that will be best for you will be determined by your business operations (i.e. businesses with an inventory must use accrual accounting). While these are the two most common methods of accounting, there are specialized methods that may be used in certain industries. You may want to consult a tax advisor to determine the best method for your business. Once a method of accounting is adopted, it can be changed only with the permission of the IRS. Permission is usually granted if switching from the cash method to the accrual method, and routinely denied for the reverse.

The proper accounting method and maintenance of your records will help:

✓ Correctly measure the profitability, growth and changes in your business;
✓ Keep track of transactions with other businesses;
✓ Supply present or future lenders with accurate financial information;
✓ Detail taxable income;
✓ Evaluate cash flows;
✓ Provide reports on inventory turnover, return on capital;
✓ Provide comparison with industry averages and regulatory reporting.

There are two basic mistakes that many business owners make when setting up their bookkeeping. One, the owner doesn't understand the importance of proper records and ignores the need. Such business owners tend to use the "shoebox method" as they allow receipts, invoices, and bills to accumulate in boxes or piles. The second mistake is overkill. The owner invests in an expensive array of hardware and software to maintain their records which ends up being too complicated to use. This should not imply that computers are ineffective tools in a bookkeeping system. Rather, it is important to invest in a system that can be easily operated and that meets the needs of your business.

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 which 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 which 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.
Purchases Journal: includes information on materials purchased.
Sales and Cash Receipts: used to record all incoming cash.

Who Should Keep the Records?

There are several options:

Keep Them Yourself—This should be the choice if your business is extremely simple, has few employees, a single location, few products or services, and if it requires only a small part of your time.

Bookkeeper/Accountant Employee—If your basic bookkeeping system is simple and you require few or infrequent financial reports, a bookkeeper may be all that you need. The more complex the needs of your business, the more likely you will require an accountant. Both bookkeepers and accountants can be hired as employees or independent contractors depending upon the type and amount of assistance desired.

Bookkeeping/Accounting Services—These services usually compile receipts, canceled checks and invoices, then process the data and prepare financial statements. This type of service is used when the business is more complex and requires a more sophisticated method for maintaining records.

The Record Keeping needs of your business must be analyzed to determine the best bookeeping system.

Choosing Advisors

A Guide to Choosing your Advisors

Small businesses usually don't have the necessary capital to hire full time experts to work within their organizations. In the beginning, you will probably not have all the necessary expertise either. Therefore, you may need to hire external professional services, such as accountants, attorneys, engineers, environmental auditors, technical consultants, management consultants and others.

Some advisors, primarily accountants and attorneys, are widely used by businesses of all sizes because of licensing and legal requirements. No business can function without maintaining financial records, filing required reports, paying income and other taxes, or having complete financial records for use in dealing with banks, suppliers, investors, etc. who need to know the financial position of your business. You may also need legal advice concerning the legal structure of your business, contractual arrangements with suppliers and distributors, leases, litigation protection, etc.

All advisors should be chosen with great care, including adequate credential and reference checking.

While the services of attorneys and accountants may seem obvious, it does not diminish the need to select individual advisors carefully. You should choose your legal, accounting, or other business advisors with great care including checking for adequate credentials and references. Engineers, technical specialists, and management consultants, as well as anyone else who provides specific specialized advice should be carefully screened as well. The expertise that advisors bring to you should be verified also. If you decide you need an advisor, the following is a guide for selecting an advisor and to using their services.

Define What Type/Kind Of Advise You Think You Need: general (legal, accounting, etc.) or specific (sales contract, audit, marketing analysis, technical consultation, etc.). By writing out your thoughts, you will be able to shorten your search time and reduce your costs.

Make A List Of Potential Advisors. The following can help you create your list:

✓ Ask business associates and friends;
✓ Ask your industry association or chamber of commerce;
✓ Ask your current advisors (lawyer, accountant, banker, etc.) about other advisors;
✓ Ask professional associations (CPA Society, Bar Association, etc.).

Screen Your List To Determine:

✓ If they regularly provide the specific help you need;
✓ If they have expertise with similar businesses;
✓ How long have they been in their business;
✓ What professional certification they have achieved;
✓ What references they can provide;
✓ What fees do they charge and how are they determined;
✓ How much time will they require to handle your project;
✓ When will they be available to do your work?

Verify Your Potential Advisor's Credentials. Conduct personal interviews. Make your decision based on the following:

✓ Do they appear to be knowledgeable about your needs?
✓ What is the breadth of their experience and professional credentials?
✓ What is their reliability for completing a project on time, within budget?
✓ Have they demonstrated an ability to work within an organization without interrupting ongoing business or alienating employees?
✓ What rapport and trust have you developed with the potential advisor during your interviews, phone conversations and reference verifications?

Potential Advisors should submit a Written Proposal which outlines:

✓ The objective and scope of the assignment;
✓ The nature and form of the final report as well as an outline for completing the project, including progress reports;
✓ A synopsis of what the advisor will do; what you and your business will do and provide; what work will be completed jointly;

✓ The anticipated cost of the project (fees and expenses); and the terms of payment;

✓ The conditions under which you and/or the advisor may cancel your agreement including any liabilities or restrictions incurred by each party.

Review the Proposal with the advisor and resolve any questions or ambiguities before agreeing to proceed or to signing any contract.

Cooperate With Your Advisor As Work Proceeds:
✓ Inform your regular staff concerning the project in order to reduce anxieties and to ensure cooperation.
✓ Be available to review progress, answer questions, clarify information and assist with roadblocks as the project progresses.
✓ Don't try to short circuit the work or change the agreed upon work schedule; however, do insist upon timely completion of the project.

Review The Finished Project and ask yourself if you got what you wanted and requested?

Would You Hire This Advisor Again? Obviously some types of advisory work can be evaluated more easily and readily than others. An accountant dealing with financial statements and audits or other detailed work may require a longer period of time to evaluate than someone working on a short term project such as a lease or purchase contract. However, all advisory work can be and should be evaluated over time. Some projects may initially appear successful but fail in the long run. When the project is completed, if you can answer yes to this last question, you have had a successful experience. If the answer is no, you must determine why. You should have learned some valuable lessons which should help you prevent another unhappy experience in the future.

Choosing and using professional advisors is critical to businesses of all types and sizes. A good working relationship with your advisor(s) can help determine the long term chances of reaching your business goals. Experienced business advisors can assist you with contacts at banks and other financial institutions. An effective ongoing working relationship with your advisors can give you, the entrepreneur, a wealth of knowledge, experience, insight and contacts that can greatly enhance the probability of your success.

LIST OF ADVISORS

Accountant _____

Attorney _____

Banker _____

Graphics/Publishing _____

Management Consultant _____

Other _____

Other _____

Other _____

Sources of Government Assistance

Office of Regulatory Reform (ORR)

The ORR was established to serve as an ombudsman for the small business community in Colorado. The office is charged with identifying and working to eliminate unnecessary, duplicative, and burdensome regulation. It conducts hearings throughout the state to elicit regulatory concerns of the business community. Such hearings have directly led to changes in state laws and agency procedures. If you have concerns regarding burdensome state regulations contact ORR, 1560 Broadway, Suite 1530, Denver, CO 80202, (303) 894-7839.

The office maintains a database of comprehensive (federal, state and local) regulatory requirements. In conjunction with the Office of Business Development and the Department of Revenue, ORR operates the Small Business Hotline, (303) 592-5920 or 1-800-333-7798, and the Colorado Business Assistance Center, 1560 Broadway, Suite 1530, Denver, CO, which together assist over 6,000 new, expanding and existing Colorado businesses each month.

In 1992, ORR was named the Ombudsman for Small Business by the "Colorado Air Pollution Prevention and Control Act of 1991" which is also known as the Clean Air Act. ORR works with and represents small business owners on noticing and permitting requirements under the new clean air standards.

DBE Certification— An additional service provided by ORR is Disadvantaged Business Enterprise (DBE) certification. The certification process determines the eligibility of minority and women owned businesses to participate as DBEs on projects for the Colorado Department of Transportation, the Regional Transportation District and the Denver Water Board. For more information call (303) 894-2355.

Office of Business Development (OBD)

The OBD works with all companies considering expansion or relocation in Colorado. OBD offers a wide range of service to assist new and existing businesses of every size. The Colorado First training program provides training assistance as an incentive for companies to expand within Colorado or relocate in the state. OBD manages a Revolving Loan Fund which serves existing businesses in rural areas.

The Small Business Office coordinates startup and existing small business programs and activities, including the Colorado Leading Edge Training Program and the Women's Programs Coordination. The Colorado Leading Edge training program assists new and existing businesses to develop a compre-

Small Business Development Centers

Alamosa	Adams State College	719-589-7372
Aurora	Community College of Aurora	303-360-4745
Boulder	Boulder Chamber of Commerce	303-442-1475
Canon City	Pueblo Community College	719-275-5335
Colorado Springs	Pikes Peak Community College	719-635-1551
Craig	Colo Northwestern Community College	303-824-7078
Delta	Delta Montrose Vocational School	303-874-8772
Denver	Community College of Denver	303-620-8076
Durango	Fort Lewis College	303-247-9634
Fort Collins	Front Range Community College	303-226-0881
Fort Morgan	Morgan Community College	303-867-4424
Grand Junction	Mesa State College	303-248-7314
Greeley	Aims Community College	303-352-3661
Lakewood	Red Rocks Community College	303-987-0710
Lamar	Lamar Community College	719-336-8141
Littleton	Arapahoe Community College	303-795-5855
Pueblo	Pueblo Community College	719-549-3224
Stratton	Morgan Community College	719-348-5596
Trinidad	Trinidad State Junior College	719-846-5645
Vail	Colorado Mountain College	303-476-4040
Westminster	Front Range Community College	303-460-1032

hensive business plan during a 10-12 week intensive education program. The Women's Program Coordinator acts as a liaison between state government and the women's business community.

The Minority Business Office provides assistance to minority-owned businesses in areas of: procurement, marketing, training and technical assistance programs. The office works as an advocate for minority business and is a point of contact for current bid information and maintains a database of minority owned business.

Small Business Development Centers (SBDCs) — Twenty community-based SBDC branches are directed by OBD. They offer free one-on-one counseling services in the areas of business financing information, research and marketing, business plan preparation and other small business subjects, as well as specialized seminars on many topics. Services are provided for new and expanding businesses. The SBDCs are a cooperative venture of the U.S. Small Business Administration, the State of Colorado and other organizations.

For more information regarding the programs administered by the Office of Business Development, the Small Business Office, the Minority Business Office or the state coordination of the SBDC program contact each office at 1625 Broadway, Suite 1710, Denver, CO 80202, (303) 892-3840.

Job Service Centers are a statewide network run by the Colorado Department of Labor and Employment which offer a variety of no-fee services which can assist employers in recruiting qualified workers, planning business changes, and helping employees facing layoff. More than 70,000 job openings are filled by Colorado's Job Service Centers each year. To access this placement service and other employment-related services, contact your local Job Service Center or the Office of Field Operations (303) 837-3926.

Business Research and Information Network (BRAIN). BRAIN is a direct computer link through the NASA Industrial Application Center to 1800+ national and international database files. It provides access to business, market and technical information from hundreds of public and private resources. For more information, call the C.U. Business Advancement Center (CUBAC) (303) 444-5723.

Colorado Community Colleges and Occupational Education Systems

Colorado offers a wide variety of education and training programs for youth and adults through the Colorado Community College and Occupational Education System. The system provides training in more than 400 specific occupations ranging from basic entry level skills to highly technical positions and develops industry specific training programs for employers for entry level employees or upgrading of current employees. In addition to the Small Business Development Centers, assistance is available from:

Aims Community College
Greeley 303-330-8008 x251
Boulder Valley Vocational Technical Center
Boulder 303-447-1010 x632
Colorado Northwestern Community College
Rangely 303-675-2261
Emily Griffith Opportunity School
Denver 303-572-8218
Larimer County Vocational Technical Center
Ft Collins 303-226-2500
Mesa College Area Vocational Technical School
Grand Junction 303-248-1514
Northeastern Junior College
Sterling 303-522-6600 x683
Otero Junior College
La Junta 719-384-8721

The Small Business Administration (SBA)

SBA is a federal agency which offers a wide variety of services for new and expanding businesses, including an all-day business seminar on advertising/marketing, financial sources, record keeping, insurance needs, legal considerations and computers. Reservations may be required for SBA classes and there is usually a nominal charge. The SBA also offers free counseling to small business through SCORE (Service Corps of Retired Executives) and ACE (Active Corps of Executives) (303) 534-7518. For more information on these and other programs offered by the SBA, please contact: U.S. Small Business Administration 721 19th Street, Denver, Colorado 80202, 303-844-3985

Local SBA/SCORE Offices in Colorado:

Boulder	(303) 442-1044
Colorado Springs	(719) 636-3074
Cortez	(303) 565-3414
Durango	(303) 247-4389
Fort Collins	(303) 482-3746
Grand Junction	(303) 242-3214
Greeley	(303) 352-3566
Gunnison	(303) 641-1501
Longmont	(303) 776-5295
Loveland	(303) 667-6311
Montrose	(303) 249-5515
Pueblo	(719) 719-1704
Sterling	(303) 522-5070

The Governor's Job Training Office (GJTO)

(GJTO) provides opportunities for both employees and employers by offering programs to help businesses find qualified workers and programs to train employees. Listed below are Service Delivery Areas which work to meet employers needs.

Adams County	(303) 289-6500
Arapahoe County	(303) 752-5820
Boulder County	(303) 441-3985
Denver County	(303) 893-3382
Douglas County	(303) 752-5820
El Paso County	(719) 578-6870
Jefferson County	(303) 271-4600
Larimer County	(303) 223-2470
Pueblo County	(719) 543-2951
Weld County	(303) 353-3800
Office of Rural Job Training	(303) 894-7410

Local Economic Development Offices

Economic Devlopment offices provide variety of different services to the businesses in their area, including permitting assistance; relocation,demographics, and site location information; and counseling and support services. A few offices administer small loan programs. Some are agencies of local city or county governments. Some are independent non-profit organizations that receive funding from local governments and/or chambers of commerce. Contact

Adams County Econ Dev	(303) 450-5106
Archuleta Econ Dev	(303) 264-4722
City of Arvada	(303) 431-3000
Aurora Econ Dev Council, Inc.	(303) 340-2101
Boulder Dev Commission	(303) 442-1044
Greater Brighton Econ Dev	(303) 659-5713
Broomfield Econ Dev Corp	(303) 469-7645
Chaffee County	(719) 539-2218
City of Colorado Springs	(719) 578-6132
Colorado Springs Econ Dev Corp	(719) 471-8183
City of Commerce Econ Dev	(303) 289-3620
Crowley County Econ Dev	(719) 267-3718
City of Delta	(303) 874-7566
Delta County	(303) 874-7595
Downtown Denver Partnership	(303) 534-6161
Denver Office of Econ Dev	(303) 640-7100
Douglas County Econ Dev	(303) 795-9447
El Paso County Econ Dev	(719) 520-6480
City of Englewood	(303) 762-2353
City of Evan Econ Dev	(303) 339-5345
Fort Collins Inc Econ Dev	(303) 221-0861
City of Fountain	(719) 382-8521
Town of Fowler	(719) 263-4461
Freemont County Econ Dev	(719) 275-8601
City of Golden	(303) 279-3331
Greeley/Weld Econ	(303) 356-4564
Jefferson County Econ Council	(303) 271-6982
La Junta Development, Inc.	(719) 384-7711
City of Lakewood	(303) 987-7730
City of Littleton	(303) 795-3748
City of Longmont/ East Boulder County Econ Dev	(303) 651-0128
Loveland Econ Dev Council	(303) 667-0905
Town of Mead	(303) 535-4477
Mesa County Econ Dev Corp	(303) 249-4332
Montazuma Dev Council	(303) 565-8227
City of Montrose Econ Dev Corp	(303) 249-6256
Morgan County Econ Dev	(303) 867-6256
City of Northgleen	(303) 450-8743
Parker Econ Dev Council	(303) 841-8683
Prowers County Dev Inc	(719) 336-2384
Pueblo County	(719) 336-2384
Pueblo Econ Dev Corp	(719) 546-1133
Town of Rangely	(303) 675-8469
"Region 10" - West Central Colo	(303) 249-2436
Rocky Ford	(719) 254-7414
San Juan Basin Econ Dev	(303) 247-9634
San Luis Valley Econ Dev Corp	(719) 589-7490
San Luis Valley Regional Dev	(719) 589-7925
Southern Colorado Econ Dev	(719) 545-8680
Southeast Colorado Ent Zone	(719) 336-3850
City of Sterling	(303) 522-9700
City of Thorton	(303) 538-7373
Trindad/Las Animas Econ Dev	(719) 846-9412
Washington County Econ Dev	(303) 345-6395
City of Westminster	(303) 430-2400
City of Wheat Ridge	(303) 235-2844
Yuma County Econ Dev	(303) 332-3200

Market Research

Knowing if there is a demand for your business may be hard to assess. To reduce the risk of starting a new business, you can do market research. Although research cannot guarantee success in your business, it can improve your chances by estimating sales potential and avoiding losses caused by lack of responsiveness to market demand.

Before You Start—Before investing your time and money in a market research study, however, there are a number of things you should consider to qualify the needs of the marketplace (determine what the customer wants).

✓ **Who** will purchase the product or service?
✓ **Who** makes the buying decisions?
✓ **What** is the current demand?
✓ **What** other products or services currently satisfy that demand?
✓ **How** many companies provide those products or services?
✓ **When** is the product purchased?
✓ **Why?** Is it seasonal?
✓ **Where** is the product purchased
✓ **Where** is the buying decision made?
✓ **How** does the potential customer buy the product now?
✓ Will that customer buy the product again, and
✓ **How** is it financed or serviced?

What You Must Know To Do Your Own Market Analysis—Know your product. What need will it satisfy? How does it compare to the competition? Is it priced fairly?

Try to determine the quality and quantity of your market segment. For example, in the retail business, it would be helpful to know the average income of the people in your selling area to predict spending levels and to estimate how many people are potential customers. Obtain other demographic information. The Census Bureau has statistical information on population, age, education and income demographics, (303) 969-7750. The Colorado Department of Labor & Employment has industry and labor market statistics, (303) 937-4935. The Department of Local Affairs, (303) 866-3120 also has useful demographic information.

Determine the proper location for your business. Gather information about traffic patterns (vehicular and pedestrian) to assess sales potential. The Colorado Department of Transportation (CDOT), Division of Transportation Planning, 4201 E. Arkansas Ave, Denver, CO 80222, (303) 757-9488 has information on vehicular movement on state highways. CDOT can provide traffic volume maps which show area volume on an average day. Some local governments have similar information for city and county roads. In addition, you should observe pedestrian movement during business hours to estimate the amount of walk-in traffic your business might receive. Check the local Yellow Pages to locate your major competitors.

Conducting A Market Study—If you want to hire someone to conduct your research, private firms offer full or partial services and will perform an extensive market study including design, administration and analysis. Fees will vary depending upon the study. Consult your Yellow Pages for listings and refer to the Choosing Advisors section of the Start-Up Kit.

If you want to do your own research, the following list of agencies, though not exhaustive, will serve as a general guide to sources offering market research information at little or no cost. In addition, refer to the Sources of Government Assistance section of this Start-Up Kit.

Chambers Of Commerce—Local Chambers can provide business development and real estate information and various municipal facts.

U.S. Department Of Commerce/Census Bureau—The Census Bureau offers statistical profiles of the area and general social and economic characteristics such as population composition, age, income, education and industry of employed persons. A library is on the premises for research, 6900 W. Jefferson Ave, Lakewood, CO 80235-2307, (303) 969-7750.

Colorado Department Of Labor And Employment/ Division Of Employment And Training - The Department's Labor Market Information Section provides demographic breakdowns, and publishes a "Colorado Labor Market Information Directory" and an "Annual Planning Information Report" covering the state and local labor market areas. Labor Market Information, 393 S. Harlan St, 2nd Floor, Lakewood, CO 80226, (303) 937-4935.

Trade Associations—Trade Associations may be useful to help you find out the number of similar merchants in your market area. Members who are currently in the market may also assist you with information to get started. You can find listings in the reference section of the public library in the "Encyclopedia of Associations."

A Marketing Plan is one of the most important aspects of any small business

Public Libraries—The Denver Public Library's Business Reference Center is the most extensive in the state. The library provides access and assistance to help you research more than 1,000,000 publications by federal, state and local government agencies and also has a business periodicals index. The larger suburban branches in the Denver metro area tend to possess better business collections than smaller branches. "Inter-Library Loans" to share resources are also available statewide. The Denver Public Library/Business Reference Center is located at 1357 Broadway second Floor, Denver, CO 80203, (303) 640-8846.

Universities and Community Colleges—Universities are a good source of information. Business school departments may offer student market studies for no charge, and professors may charge a modest fee. Also, extensive library collections may be available for public use. The University of Colorado - Boulder Technical Reference Center possesses a comprehensive database and will perform a sophisticated market search for a fee. Colorado Technical Reference Center, Norlin Library, Campus Box 184, Boulder, CO 80309, (303) 492-8774.

The SBA also has a university based program, "Small Business Institutes," throughout the state university system to provide free consulting information. In some cases, product development assistance is also provided. These universities participate in the SBI program:

Colorado State University,
Ft. Collins, 303-491-5323
University of Southern Colorado,
Pueblo, 719-549-2142
University of Northern Colorado,
Greeley, 303-351-2088
University of Denver,
Denver 303-871-3320

For additional sources of marketing assistance, refer to the Sources of Government Assistance section of the Start-Up Kit.

Develop a Marketing Plan

A marketing plan is one of the most important aspects of any small business. It will assist you in evaluating your company's marketing needs and give a concise direction in your marketing efforts. Above all, if developed properly, the plan should help you increase your market share in a cost effective, timely and productive manner. Marketing plans only work if you implement them - putting them in writing is the first step.

The steps to writing your Marketing Plan

Determine the philosophy of your company. Define what the company does and the product and/ or services it provides. Evaluate what the company is trying to do internally and externally.

Establish Your Marketing Goals. Include short and long term goals. Most companies have a number of marketing goals that need to be addressed. When determining these goals, it is important to prioritize them in the order of need and availability of funds. Consider the following questions:

✓ Do you need to introduce a new product or service to the market place?
✓ Do you need to increase your existing market share?
✓ Do you need to create a new image? Revise or correct the existing image?
✓ Do you need to increase your sales or business volume by a certain percentage?
✓ Do you want to expand your target audience or approach a new audience?
✓ Do you need to educate your audience or just sell to them?

Establish a marketing budget and stick to it. A budget should be created for a minimum of twelve months. The key to a successful budget is to be realistic, be patient concerning results, and above all, be willing to spend the money allotted to the budget.

Create a time line to accomplish your marketing goals. You may need to look at your marketing effort in phases due to cash flow constraints. Determine the best time to communicate with your audience. Use your market research to help determine the answers to the above concerns.

Create a strategic plan to implement the marketing goals. Make sure your strategies are consistent with the budget and the time line. Consider the following questions:

✓ What form of advertising provides the best use of your budget? Will it reach the target audience or would direct marketing be more effective?

✓ If you advertise, can you afford to do so consistently? If not, don't do it.

✓ Would a simple brochure relay your message? How can you distribute it effectively?

✓ Would low-cost advertising, such as coupon books, inserts and flyers get your name out in the community?

✓ Is public relations an avenue to consider? If your business sponsored a little league team or local charity, would it create constructive goodwill for your business with the community?

✓ If you need to educate your audience, what kind of action would you utilize?

Develop an effective team to implement your strategies. Most small businesses don't have the time or resources to implement their strategies. You may wish to consult with professional advisors (such as graphic designers, media and research consultants, advertising agencies, etc.) or experienced individuals in your business.

Devise an approach to track your efforts. Review the budget, your chosen marketing media and the results. Know what is working and what needs to be revised and keep a record of it.

Develop the marketing plan for next year based on this years results. If you achieve your goals, expand your efforts. If not, evaluate your efforts, make revisions and start the process again.

Evaluating your Marketing Efforts

After you have done the research, developed your plan, and created your marketing tools, you need to monitor the effectiveness of your hard work.

Customer Reactions—Sales are the best monitor of your success; however, sometimes you need to look beyond that. Are you getting repeat customers? Do they tend to comment on your product or services? Are you listening to what they say?

Tracking Tools—Translate your sales figures into percentages and tabulate your customer responses. Specific things to track include: total units/jobs performed; total number of customers; the number of repeat customers; customer database including addresses, age, income range and how they heard about you.

Don't Change a Message Too Quickly—A common mistake is to change a successful advertising message after is has run for a period of time. Remember that you will get tired of a message long before your customers will. It may take time for your message to sink in, let alone wear out.

If It Isn't Working, Fix It—Be smart when fixing a problem. Seldom will you need a complete facelift. Modify your marketing smoothly, so current customers aren't confused.

Special Marketing Assistance

Agriculture and Food Products -- The Markets Division of the Colorado Department of Agriculture, 700 Kipling St., Ste. 4000, Lakewood, CO 80215-5894, assists business owners sell Colorado food and agricultural products in local, regional, national, and international markets. They offer assistance in the areas of promotion, research, exporting, business start-ups, and expansions. Their staff is available to meet with you on an individual basis to help you develop or enhance you marketing program. The Division sponsors and co-sponsors several marketing related workshops and seminars each year. The also publish numberous directories and resource materials to help you market your products.

Their services are available to any company that grows or process a food or agricultural product in Colorado. Non-food products may also qualify if they

are at least 50 percent agricultural orign, by weight.
Exporting Colorado Products -- The Colorado International Trade Office (ITO), 1625 Broadway, Suite 680, Dever, CO 80202, (303) 892-3850, assists business interested in exporting Colorado products. ITO counsels indviduals interested in developing or expanding international markets and organizes trade shows and missions to other countries to promote Colorado products and to help indentify leads for Colorado companies. ITO has overseas offices in Japan, Taiwan, Korea, and Belgium.

The U.S. and Foriegn Commercial Services (US&FCS) is a federal agency which provides assistance to businesses interested in international trade. The maintains and international markets librarary called the Markets Resource Center. The US&FCS provides indepth market research information to companies that are fully prepared to sustain a committed program of exporting. US&FCS is located in the same location as the International Trade Office, 1625 Broadway, Suite 680, Denver, CO. The federal government also publishes a Basic Guide to Exporting which is and excellent resource guide and may be purchased from the U.S. Government Bookstore, Room 117, 1961 Stout St., Denver, CO 80294, (303) 844-3964.

The World Trade Center Denver, also located at 1625 Broadway, offers classes, seminars and workshops on international trade. The classes are offered in partnerhip with Metropolintan State College of Denver.

Business Plan

An effective business plan serves at least four useful purposes:

✓ It helps entrepreneurs focus their ideas;

✓ It creates a track for management to follow in the early stages of the business;

✓ It creates benchmarks against which the entrepreneur and management can measure progress;

✓ It provides a vehicle for attracting capital to help finance the business.

A well written business plan is an important document for any business seeking financing. However, a well written and thought out business plan is an essential tool for all business, regardless of financing needs. The business plan brings together all the goals, plans, stategies and resources of a business. In addition, if you write a comprehensive business plan prior to the comencement of operations, it may save you from significant financial and professional losses in an unprofitable business.

A sound business plan is important to the success of any business and requires an investment of substantial time and resources.

Business Plan Outline

There are no hard and fast rules in formatting your business plan. The length and content often vary depending on such factors as the company's maturity, the nature and complexity of the business, and the market it serves. The following outline is effective and comparatively easy to develop.

The Executive Summary—This section is a summary of the key elements of your plan. The executive summary is sometimes all the potential investor or lender will read, so it must capture their attention. An effective summary will properly position your company and help to distinguish your concept from the competition. It should be concise, persuasive and no more than two pages in length. If the executive summary fails to move your potential investor into the depths of your plan, it has failed to do its job.

The Executive Summary should include:

✓ A description of your business and its target markets, your product's or service's differentiation from the competition, and why your firm will succeed;

✓ A description of your management team, including their skills, experience and weaknesses;

✓ A summary of key financial projections over the next three years;

✓ A summary of funding requirements, when the funds will be needed, where the funding will come from and how it will be spent.

Section One: The Business — The purpose of this section is to explain in detail who you are, what you do, what your goals are and how you plan to get there.

This section should include:

✓ A general description of your business including: a history of the business, the concept of the company, form of legal structure and business organization, products/services offered, customers sought, and the competitive advantages;

✓ An outline of your products/services including: a list of products/services your company provides, how you provide them, and why your company is uniquely qualified. Also product/service differentiation, such as lower cost or greater versatility, should be explored here;

✓ An analysis of your major competitors and product/service cycles including: a detailed analysis of your competitors, who they are, their strengths and weaknesses, and how your company compares to the competition;

✓ Your target market and competitive strategy including: an overall description of the market for your products/services detailing your market success factors, customer demographics, present and future markets, how you will sell to each market segment, special characteristics of your products/services and of the overall general market, and finally, current and future competitive strategies;

✓ Your marketing plan including: a description of the marketing goals, how the company expects to achieve those goals, promotion, pricing and distribution plans and associated expenses;
✓ Your management and personnel including: a description of the principals of the company, their background and experience, and the company structure; and
✓ The physical geography of your business including: a description of each location and facility, whether you lease or own, previous or planned renovations, what zoning restrictions or permits are required, and transportation access for customers and shipping.

Section Two: Financial Data — The purpose of the financial plan is to inform the reader sufficiently of the vital financial information for your business. Projections, as realistic as possible, are vital for the success of a new business. If you have not had experience in preparing financial information, you may need to obtain professional assistance with this section of your business plan.

This section should include:
✓ A description of the type of loan/financing you desire: including: the amount, the length of the loan, desired terms, how you will use the money, how you are going to pay it back, available collateral, and how you will pay it back if something goes wrong.
✓ A list of your capital equipment including equipment used to manufacture or deliver your product or service (not the equipment or merchandise you sell directly to a customer) including manufacturing machinery, delivery fleets, permanent fixtures such as special lighting, air conditioning, as well as office equipment like computers, desks etc. If financing will be used to purchase some of this equipment, list it separately, in detail, from the equipment you already own.
✓ A balance sheet provides a snapshot of what you own, and what you owe at a particular point in time. It contains the same categories of information regardless of the type of business. Assets should be ranked in a decreasing order of liquidity, while liabilities should be listed in decreasing order beginning with the most immediate due.

Sample Balance Sheet

Assets
- ❒ Current Assets
- ❒ Fixed Assets
- ❒ Other Assets
- ❒ Total Assets

Liabilities
- ❒ Current Liabilities
- ❒ Long-term Liabilities
- ❒ Total Liabilities
- ❒ Equity (total assets minus total liabilities)
- ❒ Total Liabilities and Equity

✓ 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 breakeven analysis can tell you quickly if your costs are too high or if the price of your product or service is too low. A basic breakeven formula is:

$$S = \frac{FC}{GP\%}$$

S (breakeven sales level in dollars) equals FC (fixed cost, those which remain constant such as rent and salaries) divided by GP% (gross profit percentage).

✓ Financial projections which demonstrate what your business will look like at a certain future period of time. Projections should be prepared on a month by month basis for the first year and by quarter for the second and third year. They should be organized in a summary type financial format and should cover your company's sales, cash flow, balance sheet, income and costs.
✓ A deviation analysis which recalculates your financial projections from above based on changes in your income, cash flow, etc. Typically, this analysis is performed for two situations: first based on a 50 percent increase in your projections and second based on a 50 percent decrease.
✓ Historical financial reports should be included for an existing business. If available, balance sheets, income statements and tax returns for the past three years.

Section Three: Supporting Documents-You may include personal resumes and financial statements, credit reports, letters of reference, letters of intent, copies of leases, legal documents and anything else relevant to your plan.

Planning Hints

A sound business plan requires an investment of substantial time and resources. You may require the assistance of qualified professionals to complete your plan. Refer to the Choosing Advisors and Sources of Government Assistance section of the Start-Up Kit. To assure your plan is effective in guiding your management team and attracting investors, consider the following suggestions on format and approach:

✓ Provide a table of contents and tab each section;

✓ Type the plan on 8 1/2" x 11" paper,

✓ Use charts, graphs, and other visual aids to add interest and improve comprehension;

✓ Indicate on the cover and the title page that all information is proprietary and confidential;

✓ As you complete sections of the plan, ask impartial third parties to review it and give their perspective on the quality, clarity and thoroughness of your plan; there are twenty-one Small Business Development Centers listed in the Sources of Government Assistance that provide free one-on-one counseling in many areas including business plans;

✓ Finally, if you intend to use your plan to attract capital, honestly ask yourself whether you would invest in the business based on a reading of the plan; if you can't honestly answer yes, then the plan needs more work.

Financing Options

What you need to know

Financing for your business may be sought from private investors, lenders, and financial institutions. In Colorado, as nationwide, most new business are initially financed by personal investments from the owner, family, friends and personal business contacts. While it is not impossible, it is many times more difficult for new business to obtain outside financing. The vast majority of outside financing for small businesses comes from commercial banks or savings and loan institutions. Commercial finance companies, leasing companies, insurance companies, and private or public stock offerings are other financing vehicles that may suit a particular company's needs. The next three sections review the different financing sources and some of the limitations, advantages, and disadvantages of each resource. As you look to finance your business, there are questions you should ask: What do I need financing for? How much do I need? How much can I borrow? Which programs does my business qualify for? What information do I need to give the lender/investor? Do I have to pay interest? If yes, will the interest rate fluctuate or is it fixed? Will I be required to "share" ownership in my business? How long will it take to get the money? Are there repayment requirements? If so, what are they?

No matter which type of loan or financing options you choose, the lender will judge your ability to repay the loan and evaluate your collateral. They will ask for information to assess how you manage your business, how likely you are to default on the loan, the size of the loan compared to how much you have (your debt to equity ratio) and your company's ability to liquidate its current assets. **In all cases, the prospect of a profitable investment as shown by a sound business plan is a key step to seeking financing.** Assistance in how to prepare a business plan is available through a number of government offices (see the Sources of Government Assistance section of the Start-Up Kit) and through private management and financial consultants.

Financing needs can generally be categorized into three major classifications: short-term financing, intermediate and long-term financing and equity financing.

Short-term Financing Methods

Credit Lines—Under a credit line agreement, the lender, usually a bank, supplies a business with funds intended to fill temporary shortages in cash which are brought about by timing differences between outlays and collections. Credit lines are typically used to finance inventories, receivables, or for project or contract related work. You must often have a track record before you can receive a credit line and collateral may be required. There is usually a time limit that is negotiated on the credit line and banks will generally require that you maintain a designated balance of funds in your bank account.

Short-Term Loans can be used for seasonal build-ups of inventory and receivables, as well as to take advantage of supplier discounts or pay lump sum expenses, such as taxes or insurance. Generally, you repay short-term loans in a lump sum at maturity. Short-term loans are generally made on a secured (collateralized) basis and are for a term of a year or less.

Asset-Based Loans—In this type of loan, the lender will advance funds based on a percentage of your current assets, usually accounts receivable or inventory. The loan is used as a source of funds for working capital needs. The lender takes a security position in the assets owned by your business.

Contract Financing—One method of arranging financing for contracts for goods or services or purchase orders is to use your contract(s) as collateral for a short-term loan(s). In contract financing, funds are advanced to you as work is performed. Payments by the contracting party, the business for whom you are working, are generally made to the lender. Obviously, a major consideration for a lender is your business's ability to perform and complete the contract or purchase order.

Factoring—is somewhat similar to accounts receivable financing, with one notable exception: factors actually buy your receivables and rely on their own credit and collection expertise. Essentially, your customers become their customers. Payments are made directly to the factor by your buyer. Factoring

is generally used by firms unable to obtain bank financing; as a result, the cost of factoring is usually higher than other forms of short-term financing. However, factoring can offer you several advantages. Factoring relieves small companies of the expense and responsibility of maintaining a credit and collection department. The factor normally provides all of these services. Factoring also offers flexibility in the amount of borrowing. Factoring is generally done on a continuous basis. As new receivables are generated, they are sold to the factor. Thus, as your company's sales grow, additional financing becomes available. Factoring is commonly provided on a contractual basis rather than a one time basis. The sale of a receivable to the factor may be either with recourse or without recourse. Without recourse is the method preferred by most small businesses because it means that the factor assumes the full risk of nonpayment by the company that owes the receivable.

Intermediate and Long-term Financing Methods

Term Loans—can be used to finance your permanent working capital, new equipment, buildings, business expansion, refinancing existing debt, and business acquisitions. Commercial banks are the major source of term loans. Other sources include commercial finance companies and government agencies. The maturity of term loans varies greatly. The term of the loan is based largely on the useful life of the assets being financed or used to collaterize the loan. Term loans are repaid from the long-term earnings of your business. Therefore, your projected profitability and cash flow from operations are two key factors lenders consider when making term loans.

Most term loans are repaid on an installment basis and your cash flow must be sufficient to cover the payments. Generally, interest rates on long-term loans are higher than for short-term loans. Collateral and compensating balances are generally required, and the lender will often impose restrictions on your business to reduce their loan risk.

Equipment and Real Estate Loans— are term loans fully secured by the equipment being purchased. Commercial banks will typically loan from 60-80 percent of the value of the equipment being purchased. The loan is repaid monthly over the life of the equipment.

Commercial banks and other financial institutions make long-term loans secured by commercial or industrial real estate. The loan is usually made for up to 75 percent of the value of the real estate being financed. You will repay the loan in installments over a ten to twenty year period.

Commercial banks, commercial finance companies, and other financial institutions will also make second mortgages on commercial and industrial real estate. The amount of the second mortgage is based on the appraised market value of your property and the amount of your first mortgage.

Leasing—has become a significant source of intermediate-term financing for small companies in recent years. Virtually any type of fixed asset can be financed through a leasing arrangement. Leasing can be accomplished through a leasing company, commercial bank, the owner of the equipment or a commercial finance company. Leasing offers a great deal of flexibility as it can be used to finance even small amounts.

If you are interested in leasing a fixed asset, your business will be subject to the same type of review as when seeking a loan. The leasing company will be particularly interested in the cash flow of your company. The value of the leased object and its useful life are used to determine the amount of financing available.

Generally, equipment leases are for three to five years. When leasing, the total cash outlays may be greater than the total cost of an outright purchase or even a loan to finance the purchase. However, the after tax costs must be determined to compare the actual cost of each option. At the end of a lease, there are generally three options: purchase the equipment, renew the lease, or return the equipment to the leasor.

Government Financed and Backed Sources

There are a number of government programs which supplement private sources of financing and may be able to improve the availability or terms of private funding for businesses which meet the requirements of a program. The majority of programs are guaranteed loan programs, although there a limited number of direct loan programs. Guaranteed loans are loans

through commercial lending institutions which are backed by a government guarantee. Direct loans are loans made directly to the business by the government agency.

In considering whether your business qualifies for a public sector financing program, you should examine whether your proposal fits a program's restrictions (if any). Program restrictions can include geographical location, type of business, eligible uses (working capital or fixed asset purchases), maximum and minimum financing amounts, percentages of supplemental private financing, or any number of special restrictions.

Small Business Administration (SBA) Loans—The SBA offers both guaranteed and direct loan programs; although most SBA loans are guaranteed loans. The SBA will guarantee to the bank up to 85 percent or $750,000 (whichever is less) on a loan the bank issues (up to 90 percent on loans of $150,000 or less). Guaranteed loans may be financed for seven years on working capital, ten years for equipment and up to 25 years on real estate. The interest rate will vary depending upon the lender, the market and the term of the loan. You should contact your private lender first if you are interested in a guaranteed loan. The lender will contact the SBA for the guarantee. You must still meet minimum credit qualifications for all SBA loans.

No matter which type of loan you choose, the lender will want to judge your ability to repay the loan and evaluate your collateral

Currently, the SBA only offers direct loans to Vietnam-era and disabled veterans and to handicapped individuals. Veterans who apply must meet the same lending criteria as for a regular loan; these loans are issued at 9%. Loans for handicapped individuals have greater flexibility and carry a 3% interest rate. The ceiling for direct loans is $150,000 and a direct loan will only be made if a guaranteed loan or other credit is not available. The SBA will review applications to determine if it will offer a direct loan. Call or write the SBA for specific information at 721 19th Street, Denver, CO 80202, (303) 534-7519 or (303) 844-3984.

Small Business Investment Corporations (SBICs) and Minority Enterprise Small Business Investment Corporations(MESBICs) are privately owned and operated companies that are sponsored by the federal government. They invest funds in small companies as either equity or debt. Local Development Companies (LDCs) work in conjunction with banks or other sources to finance ventures important to the local economy. They finance equipment and real estate purchases. Contact the SBA, (303) 844-3984 for more information regarding these and all other SBA sponsored loan programs.

Farmer's Home Administration—guarantees business and industrial loans in non-metropolitan areas of Colorado (populations of less than 50,000). This agency will guarantee up to 90 percent of a loan from a bank or other lending institution to certain types of businesses that benefit rural communities. For more information, contact the Farmer's Home Administration, 2490 W. 26th Ave, Room 231, Denver, CO 80221, (303) 236-2801.

Colorado Housing And Finance Authority (CHAFA)—offers a number of loan programs to small businesses. Through the Quality Investment Capital (QIC) program, CHAFA acts as a secondary lender to the SBA 7(a) loan program. QIC provides fixed interest rates for projects which qualify for SBA 7(a) financing. In this program, CHAFA purchases, from the lender, the guaranteed portion of an SBA guaranteed loan and sets a fixed interest rate. Through the "ACCESS" program, CHAFA acts as a secondary lender in the SBA 504 loan program. Businesses are eligible if they are acquiring land or buildings in Colorado; machinery, equipment or furnishings as part of a real estate project; or performing construction, conversion, renovation or expansion work in Colorado. Through the U.S. Export-Import Bank, CHAFA assists export businesses with both technical assistance and export credit insurance to protect against liability in overseas exporting. Credit insurance covers liability for political and commercial risks. CHAFA also has an Export Accounts Receivable Financing program. For more information, contact CHAFA at 1981 Blake St, Denver, CO 80202, (303) 297-7329 or 1-800-877-2432.

The Colorado Office of Business Development (OBD)—offers local business development loans to

expanding Colorado businesses and to businesses relocating to Colorado. The loans can provide 20-30 percent of the total amount of financing. However, the loans are not available in every part of the state. To qualify, you must show additional private investment and job creation. For more information, contact OBD, 1625 Broadway, Suite 1710, Denver, CO 80202, (303) 892-3840.

Equity Financing

This type of financing allows investors to buy into the ownership of your business.

Advantages—Equity financing provides capital on a permanent basis with no repayment of principle or interest required. It adds to your company's net worth, thereby improving the financial stability of the business and its ability to obtain debt financing. It can also result in outside expertise being added to the management or board of your business.

Disadvantages—It carries with it a higher cost of capital and is, therefore, more expensive. It dilutes your ownership control of the business and profits must now be shared. Equity financing is a permanant investment and may be difficult to obtain. It can create a conflict of interest between yourself, the business founder, and the outside investor(s). It will also require more detailed and timely reports.

Informal Investors—include family, friends and colleagues, as well as sophisticated private investors, such as wealthy individuals or so-called "angels." This final category represents an excellent source of capital for small growing ventures. Often the size, growth rate and investment amount of a growing small business is too small to attract a venture capital firm. However, this may represent an excellent opportunity for the wealthy individual or successful entrepreneur looking to assist another entrepreneur. Private investors are difficult to find and require detailed business plans. Investors may be identified by contacting accountants, bankers, stock brokers, venture capitalists or entrepreneur clubs. You must determine that your goals are compatible with those of your prospective investor.

Venture Capital Firms—are the most risk oriented investors. Most venture firms have specific investment preferences — both in terms of business stage (ranging from seed stage to buyouts and acquisitions) and industry. In addition, venture capitalists generally have a large minimum size investment requirement. They are looking for rapid growth and high returns. The most important factor a venture capitalist considers is the management team and the ability to recapture their investment with a substantial return within five to seven years. Venture capital is typically available to less than one-half of one percent of all new businesses.

Private Or Limited Stock Offerings—This form of equity financing may be ideal for the small company. It affords the company the opportunity to raise significant amounts of equity from outside investors without the high cost and regulatory burden of a full-scale public offering of stock. These sales are still subject to some state and federal regulation and you must make sure it complies with all the provisions that exempt it from the more rigorous registration process involved in a public offering.

Your private offering must consist of equity, debt or a combination of the two. The private placement may be sold to wealthy individuals, venture capital firms or institutional investors, such as insurance companies, pension funds, trusts or mutual funds. Institutional investors prefer to purchase private placements in the form of debt instruments as they prefer receiving a fixed, relatively safe return on their investment due to their fiduciary responsibilities.

Going Public—While not many small companies elect to go public (offer shares of stock in the company to the general public) it is certainly an option for the profitable, well managed, growing small business. There are several reasons why you might decide to go public. It gives the business access to growth capital and/or can allow you, the founder, to cash in your equity in their company. Through the growth in the equity base, the business can be leveraged to allow for increased borrowing capacity. Public market funds are not restricted and more attractive incentive plans can be structured. It can also enhance your business's reputation. However, the negative aspects of going public include the loss of control of your business, increased pressure to grow and produce greater earnings. There may be pressure to shift your business's emphasis to increase stock value over generating a profit. There will be increased documentation, reporting, regulation, and higher legal and accounting expenses. The public offering process is expensive and time consuming.

Liabilities and Insurance

Before starting your business, you should be aware of the potential liablities which may be incurred when operating a business. You should look into what types of insurance may be required or may be in your best interest to protect your investment, business property and business income. Insurance companies can put together a specialized insurance package to meet the exact needs of your business. While it often makes good business sense to purchase various forms of insurance coverage, don't buy what you don't need! Here are some general types of insurance that you may want to consider.

Types of Liabilities

Basic Business Liabilites-- When you operate your own business there a number of different liablities that may be incurred as part of business operations.

If your business has employees, the business is liablible for the timely payment of all payroll taxes. If you collect sales taxes, they must be remitted properly. If either payroll and sales taxes are not paid, the goverment may seize the business and sell assets to collect the taxes due. Your business may also be held liable for injuries to your employees and your customers which occur at your work or due to products you manufacture. The business may incur liabilities when ever their is a contract for the performance of services or for the purchase or sale of products. Your personal liability will be determined by the legal structure of your business and/or and personal guarantees you make on behalf of the business.

The Following are a
Only a FEW
Examples of Businesses that May be Subject to Environment Liabilites and Regulation

Auto Shops, including batteries, gasoline, oil, paint and tires; Bakeries, Canneries, Meat Packing Plants and other Food Processors; Breweries and Distillers; Cement, Asphalt, Tar and other "paving" materials; Chemical Manufactures and Processors; Dry Cleaners; Furniture Manufactures; Explosives Manufacturers; Lumber Mills and Paper Products Producers; Medical Labrotories; Plasitics and Synthetics Materials Manufactures; Paint Shops and Manufacturers; Pest Control; Print Shops, Publishers Photo Finishing and Copiers; Refrigeration and Air Conditioning Manufacturing/ Repair.

Environmental Liabilities-- Many small businesses produce hazardouse wastes that require proper permitting, registration and disposal under federal and state guidelines. As a business owner, you should be knowledgable regarding the materials you use and produce as part of your business operations. If you are purchasing and existing business, the liabilities for the previous owners operations may be transfered to you. If you are purchasing real estate that was used by a business using/producing hazardous materials, you may be held liable for any contamination as the new owner. It is important that you are aware of past, present and and future regulations regarding environmental liabilites to protect you investments and the operation of your business.

Permitting and enforcement of environmental regulations is controled by three division at the Colorado Department of Health. The Air Pollution Control Division, (303) 692-3150, deals with air quality standards. The Water Quality Control Commission, (303) 692-3500, deals with water standards. The Hazardous Materials and Waste Management Division, (303) 692-3300 deals with all hazardous materials including air and water; however, it primary emphasis is on solid wastes. All the offices are located at 4300 Cherry Creek Dr South, Denver, CO 80222-1530.

The Pollution Prevention Program assists businesses identify alternative production processes, changes in raw materials and alternative technology to reduce pollution. The use of these alternative work practices can reduce or eliminate the need to comply

with some regulatory requirments. Contact the Pollution Prevention Program, 4300 Cherry Creek Dr South, Denver, CO 80222-1530, (303) 692-3309 for more information.

Types of Insurance Protection

General Business Liability—is the broadest form of coverage which can protect you against losses when injury, damage or even death result to another person or their property because of business negligence. You may be responsible for obligations covering medical and disability expenses and even death and funeral compensation to the dependents of one who has been injured. Your obligations may even extend beyond the general liability you assume you are responsible for. Read the terms of the insurance contract carefully.

Product Liability Insurance—If you manufacture a product, this type of insurance can also cover the goods you produce. Coverage usually applies once you have given the product to someone else who will modify or alter it in some way or distribute it for wholesale or retail sale. Insurance coverage typically relates to the product itself, but may also protect you as the manufacturer should someone experience personal injury or property damage from the use of your product.

Health Insurance—You are not required by current Colorado or federal law to provide health insurance for your employees. If you choose to provide health insurance for your employees, you should be aware of the COBRA laws and minimum mandated health benefits.

Under certain circumstances, COBRA requires the continuation of health insurance for employees and their dependents when coverage would ordinarily be discontinued. The employer is not required to pay the cost of the coverage; however, the employee or eligible dependent must be given the option to elect continuation of coverage for an additional 18 months. All businesses offering health insurance are subject to the COBRA requirements except church health plans and small employers with less than 20 employees. However, businesses with less than 20 employees are still subject to the Colorado Continuation provision similar to COBRA for 90 days following termination of regular coverage. In addition, small businesses that are part of a "collectively bargained" plan may be subject to COBRA if the total number of employees in all the businesses covered is more than 20. For more information regarding COBRA laws you should speak to your insurance agent or the Internal Revenue Service, 600 17th St, Denver, CO 80202-2490, (303) 825-7041 or 1-800-829-1040.

Colorado law provides that group health insurance policies provide certain minimum mandated benefits. Mandated benefits are newborn care coverage, normal pregnancy coverage, complication of pregnancy coverage, mammography benefit, and mental & nervous disorders benefits. Small employers, with 25 employees or less, may in some instances self-insure maternity coverage or may elect not to provide mental health benefits. For more information contact the Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, CO 80202, (303) 894-7499.

Property Insurance—is especially important if you own the property or building where your business is located. As the mortgagee, you can be protected against losses and a loss of income in the event your business experiences damage as a result of natural disaster, fire, burglary or vandalism which may destroy all or part of your property.

Business Interruption Insurance—(Also referred to as "Specific Time Element Coverage") can pay losses of income as a result of personal property damage that might occur to your business from either environmental factors, natural disasters or destruction by others until you are able to begin operating again. Coverage limits will vary and are only for the amount of actual losses. Limited coverage for a specific amount of time and a specific amount of reimbursement (for example, coverage could be purchased for a 30, 60, 90 or 365 day period and would reimburse you for 50% of your profits) can help pay for your ongoing business expenses.

Errors And Omission/Professional Liability Insurance—is often recommended for employees, owners and directors of the business. Errors and omissions and professional liability coverage offers protection for employees and owners of the business against lawsuits that may arise as a result of their actions or failure to act for duties performed during the course of business.

Bonding—is **not** an insurance contract; however, there are several types of surety bonds which you can purchase which cover a wide range of losses.

Fidelity bonds are designed to protect a business or employer from losses due to the dishonesty of employees, partners or officers in the business. However, the amount of coverage may be limited so you should check with your insurance agent as to the specific amount of coverage necessary.

Performance bonds guarantee a business's performance because of an obligation or contractual agreement. If you default on a contract or agreement to do work, a performance bond will guarantee payment to the person who has contracted with you for the remaining work. Colorado Law requires that certain occupations (such as construction work or motor vehicle dealers) post a bond before they can be licensed or before they are awarded a state contract. Bonding is usually not a mandatory requirement; however, many companies do require that you post a bond before beginning work.

These are very broad classes of insurance needs which you may want to consider. The particular insurance needs between businesses vary; there is not a single, all-inclusive package that will apply to everyone. To best meet the individual needs of your business, you should consult an insurance agent or broker who is qualified to go over the various options available to you.

Unemployment Insurance And Workers' Compensation Insurance—is required by law if there are employees in the business. Refer to the Employer Responsibilities section of the Start-Up Kit.

Trademarks, Copyrights and Patents

Trademarks, copyrights and patents are all ways to protect your work. This section will help you determine which type of registration you need and where it can be registered.

How to Register a Trademark

What Is A Trademark?—A trademark is a word, name or symbol used to identify your goods or services to distinguish them from those sold by other people. It indicates who made the product and, through advertising, should guarantee the quality of the items with the mark on them. Remember, a **trademark** identifies a product; a **trade name** identifies the business.

How Are Trademark Rights Established?— In Colorado, you may not register the trademark until you have actually used it in your business. On the federal level, you may register a trademark prior to actual use; however, it will require additional paperwork and fees when it is placed into use.

Where Do You Register a Trademark?—Trademarks are registered with the Colorado Secretary of State if your mark is used in Colorado. If your trademark will be used in more than one state, it may be registered with the U.S. Commissioner of Patents and Trademarks.

Colorado
Colorado Secretary of State
Corporations Section
1560 Broadway, 2nd Floor
Denver, CO 80203
(303) 894-2251

Federal Government
United States Commissioner of
Patents and Trademarks
Washington, D.C. 20231
(703) 308-9000, ext. 44

Along with the written application, you must submit:
✓ A drawing of the mark (must be on 8-1/2" x 11" inch paper).
✓ Three facsimiles (neither may be larger than 4 inches or smaller than 2 inches).
✓ The filing fee is $50.00 for Colorado and $200.00 for U.S.

What Are The Terms Of The Trademark? — Trademarks registered in Colorado are valid for ten years and may be renewed for additional ten year terms, as long as the goods and services are still being used in business. Trademarks registered with the federal government are valid for ten years. Every ten years you may file an "affidavit of renewal" between the fifth and sixth year, you must file an "affidavit of use" to certify that you are still using the trademark in commerce.

How to register a copyright

What is a Copyright?—A copyright protects an author's original literary, dramatic, musical or artistic work whether published or unpublished. Copyrighted works may include, but are not limited to, literary, musical scores, dramatic works, pantomime, pictorials, graphics or sculptures, motion pictures, audiovisuals or sound recordings. Copyright registration is a legal way to keep a public record of work that has been copyrighted. You may claim you have copyrighted your work, but unless the copyright is registered, a disagreement may end up in court.

Where Do You Register A Copyright?—You can receive an application form and more information by contacting the Copyright Office - Registrar, Library of Congress, Washington, D.C. 20231, (202) 707-3000. Ask for information packet number 115.

Along with the written application, you must submit:
✓ An example of the work you plan to register.
✓ A $10.00 filing fee for each application.

What Is The Term Of A Copyright?—New copyrights are usually granted for the life of the author and for 50 years after the author's death.

How to Register a Patent

What Is A Patent?—A patent allows you exclusive rights to make, sell, or use your own invention. Patents may be issued for items which are new and useful.

Where Do You Register A Patent?—Before requesting a patent, you must search the list of existing patents to see if someone else already has one registered on your invention. The Denver Public Library, Business, Science and Government Documents Section, 1357 Broadway, Denver, (303) 571-2000 ext. 8846 has lists of all existing patents. Only attorneys or agents registered with the U.S. Patent and Trademark Office may process patent applications. You may receive an application form by contacting The U.S. Commissioner of Patents & Trademarks, Washington, D.C. 20231, (703) 303-4357.

Along with the written application, you must submit:
✓ A description of the invention.
✓ A drawing.
✓ An oath promising you are the original creator of your invention.
✓ An application fee (which varies depending on the type of patent).

What Is The Term Of A Patent?—Patents are granted for 17 years, except for certain ornamental designs which may be issued for terms of three and one-half, seven or 14 years.

Where Do I Get Additional Information About Patents?—You may contact the U.S. Government Printing Office, 1961 Stout, Room 117, Denver, CO 80295, (303) 844-3964 for the publication, "General Information Concerning Patents." Also, the U.S. Small Business Administration has a brochure, "Management Aids, No. 6.005, Introduction to Patents," which is available by writing or calling, USSBA, 721 19th Street, Denver, CO 80202, (303) 844-3985.

Important Phone Numbers

The Colorado Small Business Hotline	**(303) 592-5920 or 1-800-333-7798**
State Government Directory	(303) 866-5000
Federal Government Directory	1-800-359-3997
Colorado Department of Administration	
Division of Purchasing	(303) 866-6100
Colorado Department of Agriculture	
Division of Markets	(303) 239-4114
Colorado Department of Health	
Air Quality Pollution Control Division	(303) 692-3150
Consumer Protection Division	(303) 692-3620
Hazardous Materials & Waste Management Division	(303) 692-3300
Water Quality Control Division	(303) 692-3500
Colorado Department of Labor & Employment	
Labor Market Statistics	(303) 894-4935
Labor Standards Unit	(303) 894-7541
Unemployment Insurance Unit	(303) 839-4922
Workers' Compensation Insurance	(303) 764-2929
Colorado Department of Local Affairs	
Enterprise Zones	(303) 866-2205
Local Demographics	(303) 866-3120
Colorado Department of Revenue	
Sales Tax and Wage Withholding	(303) 534-1208
Income Tax	(303) 534-1209
Colorado Department of Transportation	
Emerging Small Business Program	(303) 757-9234
Procurment/Contracting	(303) 757-9785
Secretary of State	
Corporations Section	(303) 894-2251
Uniform Commercial Code	(303) 894-2200
Internal Revenue Service	
Tax Information	(303) 825-7041 or 1-800-829-1040
Taxpayer Education	(303) 446-1660
Office of Business Development	(303) 892-3840
Office of Regulatory Reform	
Disadvantaged Business Enterprise Certification	(303) 894-2355
Small Business Advocacy	(303) 894-7839
US Small Business Administration	(303) 844-3984
US Department of Commerce - Census Bureau	(303) 969-7750
US Department of Labor & Employment	(303) 844-4405

Every new business starts with a dream. Four in five will end in a nightmare.

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The Colorado Society of Certified Public Accountants has a number of free brochures which explain the various financial and business advisory services provided by CPAs. Mail this coupon, or call either (303) 773-2877 or the in-state toll-free line 1-800-523-9082, and we'll send your free brochures quick as a wink.

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7720 E. Belleview Ave., Building 46B
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- The CPA as Auditor
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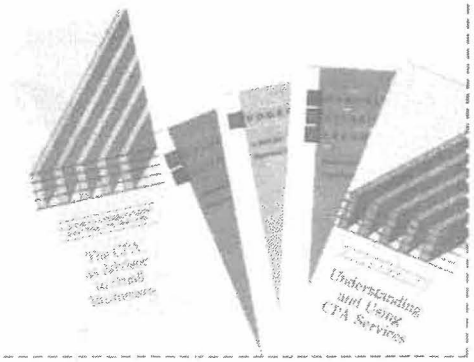
- Business Planning: Planning Your Company's Growth
- Cash Management: Managing Your Business Dollars
- Business Loans: Securing a Loan for Your Company
- Computer Services: Connecting Your Business with the Right Computer System



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(1-800-622-7726)

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1560 Broadway, Suite 1530
Denver, CO 80202-5148

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Statewide: 1-800-333-7798
Metro Denver: 592-5920

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