

Online Resources for Entrepreneurs & New Business Startups *

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* This paper represents an attempt to catalog several important web sites that can be used by individuals who plan to start a new business venture in Iowa. This paper was submitted for an Independent Study Course in the ISU Economics Department as part of the requirements for an MBA degree. Mr. McCarville was Executive Director of Webster County Development at the time of this class project.

Subjects covered include legal business structure, employee issues, business taxes, licenses and permits, record keeping requirements, professional services required (banking, legal & accounting), marketing and others. After reviewing several web sites for entrepreneurs and business startups found in other states (see Appendix I), a beginning steps guide found on a Texas web site <http://tded.state.tx.us/guide/> was used as a model for organizing similar information found for Iowa.

While online resources may be very useful to entrepreneurs and provide access to critical information and second opinions that may not locally available locally, it is also important to recognize that entrepreneurs establishing new businesses need access to professionally competent expertise for legal and accounting & tax services. A good banking relationship can also be critically important. Online information is no substitute for developing a network of competent advisors and business relationships worthy of your trust.

An attempt was made to identify all of the major internet resources available in Iowa as well as some of the better examples from other states. The paper concludes with a preliminary SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis for the Iowa sites (See Appendix II).

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I. Selection of Business Organization

Usually the first step in planning a new business venture is to determine the legal structure the business will utilize. The choices are: Sole Proprietorship, Corporation – several types, Partnership or a Limited Liability Corporation. Each will be described in more detail. Much of the information concerning business types comes from the office of the Iowa Secretary of State and can be found on their web site at <http://www.sos.state.ia.us/business/> if other sources are used they will identified with footnotes.

A. Sole Proprietorships

The sole proprietorship is the oldest, most common, and simplest form of business organization. A sole proprietorship is a business entity owned and managed by one person.

The sole proprietorship can be organized very informally, is not subject to much federal or state regulation, and is relatively simple to manage and control.

The prevalent characteristic of a sole proprietorship is that the owner is inseparable from the business. Because they are the same entity, the owner of a sole proprietorship has complete control over the business, its operations, and is financially and legally responsible for all debts and legal actions against the business. Another aspect of the "same entity" aspect is that taxes on a sole proprietorship are determined at the personal income tax rate of the owner. In other words, a sole proprietorship does not pay taxes separately from the owner.

A sole proprietorship is a good business organization for an individual starting a business that will remain small, does not have great exposure to liability, and does not justify the expenses of incorporating and ongoing corporate formalities.

<http://www.sos.state.ia.us/business/sole.html>

B. General Partnerships

Iowa Code section 486A.101(6) states that a general partnership is "an association of two or more persons to carry on as co-owners a business for profit [. . .]." In other words, if two or more individuals do nothing more than verbally agree to conduct business as owners, a general partnership is formed. Partnerships consist of relationships between two or more persons embodied in an agreement. Creation of the agreement establishes rights and duties between the partners and regulates their conduct as they transact business.

Sources of partnership law are many. Much of this law has been codified in the Iowa Uniform Partnership Act, Iowa Code chapter 486A. While no statutory filing is needed to form and operate a partnership, chapter 486A assists individuals in creating and defining the relationship between the partners. It can also be a useful reference when the partnership agreement is silent on a particular topic.

A general partnership may be created by a verbal agreement, however, it is customary and recommended that the partners define their rights and duties in a written agreement. A general partnership is not required to file a Statement of Partnership Authority with the Secretary of State but it is recommended. A Statement of Partnership Authority provides a general partnership with the advantages identified in Iowa Code section 486A.303(4).

C. Limited Partnerships

A limited partnership is a partnership formed by two or more persons and having one or more general partners and one or more limited partners. As the definition indicates, the difference between a limited partnership and a general partnership is that a limited partnership has two classes of partners: general and limited. General partners in a limited partnership have all the rights, duties and obligations of partners in a general partnership. The limited partner's status, on the other hand, differs from general partner's status in several ways. The liability of a limited partner is generally limited to the amount that the limited partner initially contributed to the partnership; the limited partner generally does not participate in the control or management of the partnership; a limited partner may not contribute services to the partnership, only money or property; and, upon dissolution, a limited partner has priority over a general partner in asset distribution.

Iowa law does not require a limited partnership to have a partnership agreement. Iowa Code section 487.201 does require the partners in a limited partnership to execute and file with the Secretary of State an application for a Certificate of Limited Partnership. Even though the requirements to form a limited partnership are minimal, a written partnership agreement is recommended.

D. Limited Liability Partnerships

A limited liability partnership can be formed when an existing general or limited partnership files a statement of qualification to become a limited liability partnership under Iowa Code section 486A.1001. The limited liability partnership is essentially a form of general partnership with one significant difference. In a general partnership, individual partners are liable for the partnership's debts and obligations whereas the partners in a limited liability partnership are statutorily provided full-shield protection from partnership liabilities, debts and obligations.

Under Iowa Code chapter 486, the old partnership law, partners in a limited liability partnership were protected from personally liability from certain acts or misconduct of other partners, employees, agents, or their representatives. They remained, however, liable for certain partnership obligations, the partner's own acts, and acts of others which the partner supervised. According to the new law passed in 1998, partners in a limited liability partnership are now provided full-shield liability. Iowa Code section 486A.306(3) states that "an obligation of a partnership incurred while the partnership is a limited liability partnership [. . .] is solely the obligation of the partnership." The significance of the change is that a limited liability partnership now provides general partners with liability protections similar to a corporation without the burden of having to adhere to ongoing corporate formalities.

Prior to passing the Iowa Uniform Partnership Act In 1998, Iowa Code chapter 486 applied to partnerships in Iowa. As of January 1, 2001, Iowa Code chapter 486A will apply to all partnerships operating in the state of Iowa.

E. For Profit Corporations

A business corporation is the most complex form of business organization. A for profit corporation is an association of individuals created by law with powers and liabilities independent of its stockholders. In essence, the corporation is a separate and distinct entity from the people who control, manage, and own it. As a separate entity, the corporation owns the corporate property, owes the corporate debt, is the debtor that gets sued or the creditor who sues. The day-to-day management of a corporation is usually done through a board of directors and officers who are usually elected by the corporation's stockholders.

Stockholders and company officials are almost always protected from personal loss, other than their own investments in the company's stock. A corporation is governed by its Articles of Incorporation and Bylaws.

Generally, there are two types of corporate structures. A closely held corporation is one where there are a small number of shareholders who own the corporation's shares, share transfer restrictions are likely, and the owners of the corporation are usually the board members and officers who also work for the corporation. A publicly held corporation, in

contrast, has shareholders who are part of the general public, demand for the corporation's shares is much broader, there are generally no share transfer restrictions, and shareholders are not exclusively board members and officers.

When deciding whether to organize as a for profit corporation, it is important to take into consideration federal tax laws. The Internal Revenue Service distinguishes between subchapter S and subchapter C corporations. A subchapter S corporation allows a smaller business to have flow-through taxation as if it were a partnership. Some conditions for obtaining a subchapter S status include having seventy-five or less shareholders and that there be only one class of outstanding stock.

For more information on subchapter S and C corporations, contact the Internal Revenue Service at 800-829-1040.

F. Nonprofit Corporations

Since the readers of this paper are assumed to be individuals that are interested in starting and operating their own businesses, information for non profit corporations are presumed to be beyond the scope of this study. However for more information on non profit entities, people may contact web site for the [Iowa Nonprofit Resource Center](#) located at the University of Iowa:

II. Tax Considerations

Once the business organization has been determined, another step is to determine what types of taxes the business enterprise will be subject to during the operation of the business. One of the most common Iowa taxes that businesses must be prepared to pay is sales & use tax. The Iowa Department of Revenue and Finance offers some very helpful information on their web site <http://www.state.ia.us/tax/business/newbus.html>

This site helps a prospective business entrepreneur to determine whether the company's products and services are subject to sales and use tax and then provides specific information on the reporting and filing requirements. The entire Sales and Use Tax Information Booklet can be found on line at <http://www.state.ia.us/tax/educate/78539.html>

The site also includes information on the various types of local option taxes that may be required. That information is found at <http://www.state.ia.us/tax/educate/78503.html>

In Iowa, any business that hires employees must be registered as a withholding agent for payroll taxes and also must have a federal identification number. Specific information on these requirements can be found at <https://www.idrf.state.ia.us/CBA/start.asp> which is part of the Iowa Department of Revenues web site.

Information on applying for an Employers Identification Number can be found on the IRS web site <http://www.irs.gov/pub/irs-pdf/fss4.pdf> or by calling 1-866-816-2065.

Once the business has applied for and received a Federal Employers Identification Number the next step when hiring employees is to have each of them fill out a W-4 form for both state and federal withholding of income taxes. All of this information and the necessary

forms can be found on the Iowa Secretary of State's web site at <http://www.state.ia.us/tax/business/newbus.html>

III. Business License Information

Any business may be subject to different licenses or certification programs set up by the State of Iowa. A good way to determine which if any of these may apply to a particular business is to research it through [Iowa Business License Information Center](#)

This site will lead the prospective business owner through a list of questions that will then determine what state permits are necessary for a specific business.

There are also a number of locally governed regulations that can directly impact the operation of an Iowa business. Some regulations may be accessed through the County Recorders. A list of them can be found at <http://www.iowacounties.org/>

Zoning law is another area that will in many cases determine where a business can be located. All zoning ordinances are local and will vary from city to city. For specific information it is critical to contact the local zoning administrator at either the city or county level. Links to local government may be found on the web sites for the [Iowa State Association of Counties](#) or the [Iowa League of Cities](#)

IV. Employment Issues:

This is a final area of concern for most startup businesses. In all cases involving startups that hire employees, it is recommended that contact be made with the local office of [Iowa Workforce Development](#). Another information source on employment issues is the [US Chamber of Commerce](#).

V. Other Resources:

Many entrepreneurs and startup businesses may want to become familiar with the online availability of resources and contacts for expertise in the areas of marketing, finance, technology, and entrepreneurs with similar interests. Several sources for such information include:

- [Iowa Small Business Development Centers](#)
- [Iowa Department of Economic Development:](#)
- [Iowa Department of Agriculture and Land Stewardship](#)
- [U.S. Small Business Administration \(SBA\)](#)
- [SBA Business Plan Basics](#)
- [USDA Rural Development Agency - National](#)
- [USDA Rural Development - Iowa](#)
- [Iowa State University Extension](#)
- [Value Added Agriculture](#)
- [Center for Industrial Research and Service](#)
- [Iowa Manufacturing Extension Partnership](#)
- [Institute for Physical Research and Technology](#)
- [Center for Advanced Technology Development](#)
- [ISU Research Foundation, Office of Intellectual Property & Technology Transfer](#)

COMMUNITY VITALITY CENTER – www.cvcia.org

477 Heady Hall, Ames, IA, 50011-1070, Phone: 515-294-3000, Fax: 515-294-3838, e-mail: cvc@iastate.edu

- [ISU Research Park](#)
- [Institute for Social and Economic Development](#)
- [Wallace Foundation for Rural Research and Development](#)
- [How to grow your business from idea to successful company](#)
- [National Business Incubation Association](#)

Pappajohn Centers for Entrepreneurship

- [At Iowa State University](#)
- [At University of Northern Iowa](#)
- [At University of Iowa](#)
- [At North Iowa Area Community College](#)
- [At Drake University](#)

In summary, each business venture is unique and there is no one source of information that will address every question that may come up. There are however resources for every question. So, it may require a little extra effort to find good information that is specific to the question faced.