

# Stage 1: You've Started Your Business

“So often people are working hard at the wrong thing. Working on the right thing is probably more important than working hard.”

– Caterina Fake, Co-founder, Flickr



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## Sole Proprietorship (You've put out your shingle!)

- Owned and managed by one person
- Informally organized
- Not subject to much regulation
- Easy to manage
- Taxation: owner is inseparable from business
- Liability: owner is personally responsible for business obligations/debts



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## Partnership

(You've put out your shingle with someone else!)

- Owned by two or more people
- Taxation: Owners are inseparable from business, but income/losses are passed through pro-rata to each partner
- Liability: Each partner is personally liable for obligations/debts of business



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## Stage 2: I'm in Business, Now What?

Three golden rules:

1. Protect Your Business
2. Grow Your Business
3. Make Money!



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## First Golden Rule: Protect Your Business

- Separate yourself from your business
  - Limited liability company (llc)
    - an unincorporated business association with at least one “member”
    - few record keeping requirements
    - Filing with SDAT and payment of annual fee
    - Taxation: Normally same as partnership, can make election as a corporation
    - Liability: Members are not personally liable for debts/obligations absent misconduct/fraud
  - Corporation (Inc.)
    - Minimum of directors based on shareholder number
    - Directors oversee corporation and elect officers (president, secretary, treasurer)
    - Must observe formalities! Be careful of piercing the “veil”
    - Taxation: Files own tax returns and taxed as a separate entity. Dividends also are taxed
    - Liability: Absent extreme circumstances (fraud), shareholders not personally liable for debts/obligations of corporation



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## First Golden Rule: Protect Your Business, cont.'d

- Protect Your Assets
  - Name (trademark), URLs (purchase), Equipment, Importance of Insurance
- Protect Your Finances
  - How to fund (personal loans, financing of start-up and operating costs, establish relationship with bank, leasing of equipment)
- Obtain Appropriate Licenses
  - Department of Labor, Licensing & Regulation, Division of Occupational and Professional Licensing
  - Montgomery County
  - Business License (Clerk of Circuit Court)
- Document the ownership, management, voting, methods of distributing income and other operational facets of the business
  - Bylaws, Partnership Agreements, Operating Agreements, Stockholder Agreements, Voting Trusts
- Establish Practices and Procedures



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## Second Golden Rule: Grow Your Business

- Hire Independent Contractor
  - Operates under own business and has more than one client
  - Invoices for work completed and has own tools and sets hours
- Hire Employee
  - Performs duties dictated/controlled by employer
  - Receives training and works for one employer (generally)
- Why Care About Classification?
  - Employer responsible for withholding for federal/state income taxes, Social Security, Medicare, unemployment
  - If misclassified, penalties and payment of back taxes
  - Basic test is amount of control
  - First Steps: Obtain EIN, set up records for withholding taxes, verify employment eligibility, register with State's New Hire Reporting Program, obtain Worker's Compensation Insurance, post required notices, file quarterly tax returns
  - Employment Agreement: at-will employment, rate of pay, reimbursement of expenses, employee duties (non-solicitation and non-competition, treatment of confidential information), termination provisions (notice, severance, for-cause vs. no-cause)

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## Second Golden Rule: Grow Your Business, cont.'d

- Finding a Location
  - Factors to consider
  - Home-based businesses
    - Zoning regulations (type of business, frequency of visitors/clients/deliveries)
    - Montgomery County Department of Permitting Services
    - Separate regulations for Barnesville, Brookeville, Gaithersburg, Laytonsville, Rockville, Poolsville, Washington Grove
    - Additional considerations (expenses, insurance)
  - Leasing space
    - Commercial real estate broker
    - Negotiation of terms, Letter of Intent, Lease
  - Purchasing property
- Connecting with Vendors

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## Third Golden Rule: Make Money!

- Establish relationship with bank
- Agreements with customers
  - Late fees and interest
  - Recovery of collection costs
  - Limitation of warranties
  - Description of product/services delivered
  - Limitation of liability
- Aggressively pursue payment
- Plan to retire

“As men and women age, men are tired of the race. I mean they’ve been running it since their late teens; they’re exhausted. All they want to do is take a deep breath. They want to retire; they want to play golf; they want to just enjoy life. And women are raring to go because they feel like they’ve fulfilled their responsibilities; their kids are now on their own; it’s now time for them to show what they can do.” --??



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