Alabama's Answers

A Guide To Doing Business In Alabama

SMALL BUSINESS GUIDE

TO

DOING BUSINESS IN ALABAMA

The Book of Information for the Alabama Business Entrepreneur

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INTRODUCTION

This document is intended to provide basic, introductory information to individuals who are considering starting a business in the State of Alabama. While no one publication can answer every question for every kind of proposed business, this publication can serve as a guide to those sources of information which are needed for a successful business venture.

The Alabama Small Business Development Centers, in conjunction with other state agencies, are available to provide a complete spectrum of services to help the entrepreneur to establish and operate a successful small business. The services that the ASBDC provides are free and the technical and expert advice that they are able to provide can make the difference in whether a business venture is successful or not.

This guide is organized into five major sections:

I. How to Start a Business in Alabama
II. Start- Up Guidelines
III. Guide To Business Taxes
IV. Small Business Assistance
V. Small Business Financing

This book provides information for the entrepreneur to build on. However, before engaging in any business venture, it is advisable to seek advice from a lawyer, an accountant and other professionals. They can advise you on technical aspects relating to starting a business that this book will not attempt to address.

We encourage you to research your proposed venture thoroughly and seek assistance from every available resource.

Best of luck in your new venture.

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I. HOW TO START A BUSINESS IN ALABAMA

A. Business Start-up Checklist

B. From Idea to Personal Commitment

C. Technical and Managerial Experience Needed

D. Writing A Business Plan

E. Choosing A Legal Structure

F. Sample Documents

1. The Balance Sheet
2. The Income Statement
3. The Cash Flow Statement

G. Ten Steps To Business Success

H. Feasibility Checklist

A. BUSINESS START-UP CHECKLIST

There are a number of steps which should be taken before anyone starts a small business in Alabama. Detailed descriptions of all the areas involved in planning a business venture are discussed in the following sections of this book. The following checklist is designed to be used as a general reference guide by the business owner to adequately plan and prepare for entry into the world of entrepreneurship.

START-UP CHECKLIST

__ Prepare a written business plan complete with financial statements

__ Decide whether you wish to operate as a sole proprietorship, partnership or corporation

__ Establish a source of adequate and reliable financing

__ Check on zoning ordinances

__ Select a suitable location

__ Retain an attorney and CPA, if appropriate

__ Acquire necessary licenses and permits

__ Get tax ID number and forms; follow other tax requirements

__ Choose a record keeping system and method of inventory control

__ Open bank accounts

__ Arrange for utilities, telephone and other services

__ See insurance agent for full range of coverage

B. FROM IDEA TO PERSONAL COMMITMENT

The main message of this manual is to stress the importance of prior planning and thinking through your idea. Prior planning encourages systematic thinking by management and leads to the development of proper controls. The result is a better overall preparedness and a more vivid sense of the interacting responsibilities.

The first step in the process is generating your idea. This is only the very first step; many things remain to be done before you can expect to realize and make money from the idea. At the minimum level your ideas will need to pass several tests to determine whether or not it is an original idea, whether the idea can be produced and distributed profitably, and whether or not your idea can be protected. This seems simple enough until you examine the underlying questions that must be resolved. For example, to determine the commercial merit of an idea the following areas should be considered:

Legality
Safety
Environmental Impact
Societal Impact
Potential Market
Product Life Cycle
Usage Learning
Product Visibility
Service
Durability
New Competition
Functional Feasibility
Production Feasibility
Stability of Demand
Profitability
Marketing Research
Research and Development
Distribution
Perceived Functions
Existing Competition
Potential Sales
Development Status
Investment Costs
Trend of Demand
Product Line Potential
Need
Promotion
Appearance
Price
Protection
Pay-Back Period
Consumer/User Compatibility
Product Interdependence

It will take a great deal of personal commitment to turn your idea into reality. Small business owners must be willing to work exceptionally long hours and often forego financial rewards in the early stages of their operation. All too many businesses fail, but proper planning and dedication will certainly increase your chances for a successful venture.

C. TECHNICAL & MANAGERIAL EXPERIENCE NEEDED

One of the most common mistakes in starting a business is trying to do so without the necessary training and experience. Before you start a business, you should ask yourself whether you actually have the background, experience and training that is required. For example, a retailer would need some expertise in management, sales and buying. The management experience would need to include personnel, record keeping and marketing, as well as other skills.

If you do not already have this experience, how do you get it? Generally, it is best to work for a time in a company similar to your proposed business. This gives you a closer look at what that type of business entails without risking your investment during the learning period. Another suggestion for gaining expertise is to take courses at your local college or university. Most area schools offer both credit and continuing education courses. Various seminars and workshops are also offered throughout the year.

There are many publications available that offer help and insight to many of the day-to-day problems that a small business owner faces. The Small Business Administration issues a wide range of management and technical publications to assist the small business owner. One of the most useful is the ***Alabama Small Business Resource Guide***, which is published annually and is available from the SBA Alabama District Office website at http://www.sba.gov/al/. To obtain a list of the available publications write:

Small Business Administration Publications
P.O. Box 46521
Denver, CO 80201-0030
(202) 205-6665
http://www.sba.gov/library/pubs.html

and ask for SBA 115-A, Business Development Pamphlets.

The Government Printing Office also publishes several useful books that are available by writing:

Government Printing Office
Superintendent of Documents
U. S. Government Printing Office
P.O. Box 371954
Pittsburgh, PA 15250-7954
(866) 512-1800
http://bookstore.gpo.gov/

D. WRITING A BUSINESS PLAN

Introduction

One of the most important early steps to take in starting or expanding a business is to write a business plan. There are three major reasons why you should take the time to create a written business plan.

The **first** reason is that the process of putting a business plan together, including the thought you put in before beginning to write the plan, forces you to take an objective, critical and unemotional look at your business project in its entirety.

A **second** advantage that comes with having a written business plan is that the finished product, your business plan, is an operating tool which will help you manage your business and provides a means to measure your success.

And **third**, a properly prepared business plan also provides the information that must be presented to a bank or other investors before a credit decision is made. Since many businesses only start or expand through borrowed monies, the presentation of reliable and complete information in a business plan is essential.

What A Bank Looks For In A Business Plan

The Business Plan is an excellent tool for bank presentations when financing is needed. A good business plan tells the banker that the applicant has put a great deal of thought and effort into this decision. A well-presented business plan will let the banker know that he is dealing with a serious, well informed prospect, instilling more faith in you as an entrepreneur.

If a business plan is to be submitted to a bank, it is important to realize how a banker analyzes a business plan and what questions a banker will ask during this analysis. A banker's job is to assess the degree of risk in each proposed loan and to be satisfied that the loan can be repaid by the borrower while still allowing the businesses to operate profitably. A banker does this by analyzing a number of things:

- The Nature of the Business
- The Purpose of the Loan
- The Amount of the Loan
- The Ability to Repay the Loan
- The Character/Management Skills of the Business Owner

To convince a banker or investor of the merits of a loan request, a borrower must present complete, well organized information which addresses these and other concerns. It is important to remember that the proper packaging of a loan proposal can be an important step in getting it approved.

Suggested Business Plan Outline

I. Cover Letter
- A. Name of Business
- B. Name of Principals
- C. Address of Business
- D. Telephone Number of Business

II. Statement of Purpose
- A. Brief Statement of the Business Plan Objectives

III. The Business
- A. Description of the Business
- B. The Market
- C. Competition
- D. Location of the Business
- E. Management
- F. Personnel
- G. Application and Expected Effect of Loan or Investment
- H. Summary

IV. Financial Data
- A. Sources and Applications of Funding
- B. Capital Equipment List
- C. Balance Sheet
- D. Breakeven Analysis
- E. Pro-Forma Income Projections (Profit & Loss Statements)
  - Three-Year Summary
  - Detail by Month, First Year
  - Detail by Quarter, Second and Third Year
  - Notes of Explanation
- F. Pro-Forma Cash Flow
  - Three Year Summary
  - Detail by Month, First Year,
  - Detail by Quarter, Second and Third Year
  - Notes of Explanation
- G. For an Existing Business
  - Budget Deviation Analysis
  - Historical Financial Reports
  - Balance Sheets for Past Three Years
  - Tax Returns

V. Supporting Documents
- A. Personal Resumes and Financial Statements
- B. Job Descriptions
- C. Credit Reports
- D. Letters of Reference
- E. Letters of Intent
- F. Copies of Leases, Contracts and Other Relevant Legal Documents

E. CHOOSING A LEGAL STRUCTURE

Once you have decided to start a business, you must decide what type of business entity to use. There are many legal and tax considerations, which will enter into a sound decision. These legal considerations can become very involved and it is advised that you consult an attorney to help you determine the appropriate structure.

There are five principle forms of business structure: the Proprietorship, the Partnership, the Corporation, Subchapter S Corporation, and the Limited Liability Company (LLC). The decision should be based on your specific circumstances, goals and needs. These structures, along with their advantages and disadvantages, are listed below:

The Sole Proprietorship

The sole proprietorship is usually defined as a business which is owned and operated by one person. To establish a sole proprietorship, you need only obtain whatever licenses you need and begin operation.

Advantages

- Ease of formation
- Sole ownership of profits
- One owner has control and decision-making power
- Flexibility in day-to-day management
- Relative freedom from government intervention

Disadvantages

- Unlimited liability - this extends to all of the proprietor's assets including the home and car, but may be lessened by proper insurance coverage
- Unstable business life - the business may be terminated upon the death of the owner
- Less available capital
- Difficult to obtain long-term financing
- Relatively limited viewpoint and experience

The Partnership

The Uniform Partnership Act, adopted by many states, defines a partnership as "an association of two or more persons to carry on as co-owners of a business for profit." Though not specifically required by the Act, written Articles of Partnership are customarily executed. These articles outline the contribution by the partners into the business (whether financial, material or managerial) and generally delineate the roles of the partners in the business relationship.
Some of the characteristics that distinguish a partnership from other forms of business organizations are the limited life of a partnership, unlimited liability of at least one partner, co-ownership of the assets, sharing of managerial duties and a sharing of the profits.

Advantages

- Ease of formation
- Direct rewards
- Growth and performance facilitated
- Flexibility in decision making
- Relative freedom from government control and special taxation

Disadvantages

- Unlimited liability of at least one partner
- Unstable life - elimination of either partner constitutes automatic dissolution of the partnership
- Relative difficulty in obtaining large sums of capital
- Firm bound by the acts of just one partner as agent
- Difficulty of disposing of partnership interest

The Corporation

The corporation is by far the most complex of the business structures. A corporation is a distinct legal entity. That is, it is separate from the individuals who own it.

A corporation usually is formed by the authority of a state government. Corporations which do business in more than one state must comply with federal laws regarding interstate commerce and with the state laws, which may vary considerably.

The procedure ordinarily required to form a corporation is that first a subscription for capital stock must be taken and a tentative organization created. Then, approval must be obtained from the Secretary of State in the state in which the corporation is to be formed. This approval is in the form of a charter for the corporation, stating the limitations of the particular enterprise.

Advantages

- Limitations of the stockholders liability to a fixed amount of investment
- Ownership is readily transferable
- Separate legal existence
- Stability and relative permanence of existence
- Relative ease of securing capital
- Delegated authority
- The ability to draw on the expertise and skills of many

Disadvantages

- Activities are limited by the charter and various laws
- Minority stockholders may be exploited

- Extensive government regulations and required reports
- Less financial incentives for the manager
- Double taxation - income tax on corporate net income (profit) and also on salaries and dividends

The Subchapter S Corporation

The Subchapter S Corporation is a legal corporation that is afforded special tax treatment under Subchapter S of the Internal Revenue Code. The characteristics of the S corporation are; under state law S corporations retain the normal features of a corporation, to include limited liability, but for federal tax purposes it is treated much like a partnership.

The S Corporation is absolved from payment of taxes; hence the stockholders report corporate income, loss, deductions and credits on their individual tax returns. In most all other aspects, the S Corporation operates in compliance with state and federal laws relating to corporations, just as a regular corporation.

Advantages

- Limited liability of stockholders
- Ownership is readily transferable
  Separate legal existence
- Taxed similar to partnership - profits pass through the corporation untaxed, but are taxed as individual stockholder income, loss, deductions and credits.

Disadvantages

- Activities are limited by the charter and various laws
- Extensive government regulations and required reports
- No more than 35 stockholders
- S Corporation can not own more than 80% of any other corporation
- Stockholders must be individuals, not entities
- Stockholders must be resident citizens
- Only one class of stock may be issued
- The law prohibits S incorporation for the sole reason of obtaining limited liability status

LLC's and LLP's

The Alabama Limited Liability Company Act (93-724), passed in May 1993 by the Alabama Legislature, provides for the formation of a new business entity in Alabama. The act became effective on October 1, 1993. If properly structured, an Alabama Limited Liability Company (LLC) will offer the beneficial tax status of a partnership and provide all of its members with limited liability. It is treated like a corporation for limited liability purposes, but for federal tax purposes it is treated as a partnership.

A summary of the features of the Limited Liability Company (LLC) as well as the Limited Liability Partnership (LLP) is available at the web address below.

For more information, go to *http://www.sos.state.al.us/business/corporations.aspx*.
This is an excerpt from the Tanner and Guin, LLC, Attorneys' website concerning LLC's and LLP's. You can find more information on this subject at *www.tannerguin.com*.

Procedures For Incorporation

The following procedures apply to the formation of an Alabama (domestic) for-profit corporation under Title 10-2A, Code of Alabama, 1975, as last amended.

1. The proposed name of the corporation must be reserved with the Corporate Section of the Office of the Secretary of State. If the proposed name is available, a Certificate of Name Reservation will be issued. This requirement may be accomplished by writing or calling the Corporate Section at (334) 242-5324. Alabama law requires that the name contain the word 'corporation' or 'incorporated' or an abbreviation of one such word. Additionally, there is a $10.00 fee for the certificate, which is collected when the Articles of Incorporation are filed.

2. After receiving the Certificate of Name Reservation, the Articles of Incorporation may be filed. The necessary forms can be obtained and additional questions answered by writing or calling the following office:

Office of the Secretary of State
Corporate Section
P.O. Box 5616
Montgomery, Alabama 36130
(334) 242-5324
http://www.sos.state.al.us

F. SAMPLE DOCUMENTS

THE BALANCE SHEET

The Balance Sheet is a measure of the solvency of the business and the degree of the owner's investment, which, in the last analysis, is the "cushion" that protects creditors. Illustrated below is a typical balance sheet format (applicable to any type of business).

Name of Company

Balance Sheet As Of _____

CURRENT ASSETS:		
Cash on Hand and in Banks	$	_____
Accounts Receivable		_____
Notes Receivable, Trade		_____
Notes Receivable, Other		_____
Inventory		_____
Marketable Securities		_____
Other Current Assets		_____
TOTAL CURRENT ASSETS:		_____
LONG-TERM ASSETS:		
Land, Land improvements, Buildings		_____
Machinery & Equipment		_____
Other Assets (attach list if needed)		_____
Deferred, Prepaid, Expenses		_____
Intangible Assets		_____
TOTAL LONG-TERM ASSETS:		_____
TOTAL ASSETS:		_____
CURRENT LIABILITIES:		
Notes Payable, Banks		_____
Notes Payable, Other		_____
Accounts Payable, Current		_____
Accounts Payable, Past Due		_____
Accrued Federal, State Income Taxes		_____
Other Accrued Expenses		_____
Current Portion Long-Term Debt		_____
Current Portion Long-Term Lease		_____
Other Current Liabilities		_____
TOTAL CURRENT LIABILITIES:		_____
LONG-TERM LIABILITIES:		
Mortgage Debt due after 1 year		_____
Equipment Debt due after 1 year		_____
Lease Agreement beyond 1 year		_____
Other Long-Term Debt		_____
TOTAL LONG-TERM LIABILITIES:		_____
NET WORTH:		
Capital Account (Corporate Only)		_____
Preferred Stock		_____
Common Stock		_____
Capital Surplus		_____
Retained Earnings		_____
TOTAL NET WORTH:		_____
TOTAL LIABILITIES AND NET WORTH:		_____

NOTE: In order to complete the Balance Sheet properly, Total Assets must equal Total Liability plus Net Worth.

THE INCOME STATEMENT

The Income Statement (Profit and Loss) records all income and expenses of the business during a specified time period and is the accepted method of determining profits and losses. The Internal Revenue Service requires all businesses to submit this report at the end of each year.

Profit and Loss Statement

From: _____ to _____

Sales or Gross Receipts (1)	_____
Less Cost of Goods Sold (2)	_____
Gross Profit	_____
Less Operating Expenses (3)	
Rent	_____
Depreciation	_____
Repairs & Maintenance	_____
Salaries & Wages	_____
Payroll Taxes & Fringe Benefits	_____
Taxes, Licenses & Fees	_____
Insurance	_____
Accounting, Legal and Professional Fees	_____
Bad Debts	_____
Telephone	_____
Utilities	_____
Supplies	_____
Security	_____
Auto and Truck	_____
Advertising and Promotion	_____
Interest	_____
Miscellaneous	_____
Total Expenses	_____
Net Profit Before Taxes	_____
Federal Income Taxes (Corporation Only)	_____
Net Profit (or Loss) (4)	_____

(1) Sales or Gross Receipts - represents total amount of money that the business makes from the sale of its merchandise, less discounts and refunds.
(2) Cost of Goods Sold- the cost of the merchandise that the business sells. These costs differ with each type of business.
(3) Operating Expenses - all business costs other than the costs of the merchandise.

(4) Net Profit (loss) - sales less cost of goods sold less operating expenses less tax.

THE CASH FLOW STATEMENT

The Cash Flow Statement is the most critical planning tool for a new or growing business. It shows how much cash will be needed, when it will be needed and where it will come from. It attempts to budget monthly cash needs, and shows the flow of cash into the business from sales, collection of receivables; and out of the business through payment of expenses and loans over a period of time. The banker uses this information to analyze possible shortfalls of cash and as a guide to borrowing needs. Your statement should show Cash Flow over the full twelve-month period. This Cash Flow Statement (reprinted form SBA Management Aid 1.001 the ABC's of Borrowing) represents a cash flow statement for a three-month period.

Cash Budget

(For three months, ending March 31, 20 _____)

	January Budget	January Actual	February Budget	February Actual	March Budget	March Actual
Expected Cash Receipts						
1. Cash sales	_____	_____	_____	_____	_____	_____
2. Collections on accounts receivable	_____	_____	_____	_____	_____	_____
3. Other income	_____	_____	_____	_____	_____	_____
4. Total cash receipts	_____	_____	_____	_____	_____	_____
Expected Cash Payments						
5. Raw materials	_____	_____	_____	_____	_____	_____
6. Payroll	_____	_____	_____	_____	_____	_____
7. Other factory expenses (including maintenance)	_____	_____	_____	_____	_____	_____
8. Advertising	_____	_____	_____	_____	_____	_____
9. Selling expense	_____	_____	_____	_____	_____	_____
10. Administrative expense (including salary of owner-manager)	_____	_____	_____	_____	_____	_____
11. New plant and equipment	_____	_____	_____	_____	_____	_____
12. Other payments (taxes, including estimated income tax; repayment of loans; interest; etc.)	_____	_____	_____	_____	_____	_____
13. Total cash payments	_____	_____	_____	_____	_____	_____
14. Expected Cash Balance at beginning of the month	_____	_____	_____	_____	_____	_____
15. Cash increase or decrease (item 4 minus item 13)	_____	_____	_____	_____	_____	_____
16. Expected cash balance at end of month (item 14 plus item 15)	_____	_____	_____	_____	_____	_____
17. Desired working cash balance	_____	_____	_____	_____	_____	_____
18. Short-term loans needed (item 17 minus item 16, if item 17 is larger)	_____	_____	_____	_____	_____	_____
19. Cash available for dividends, capital cash expenditures, and/or short investments (item 16 minus item 17, if item 16 is larger than item 17)	_____	_____	_____	_____	_____	_____
Capital Cash						
20. Cash available (item 19 after deducting dividends, etc.)	_____	_____	_____	_____	_____	_____
21. Desired capital cash (item 11, new plant equipment)	_____	_____	_____	_____	_____	_____
22. Long-term loans needed (item 21 less 20, if item 21 is larger than item 20)	_____	_____	_____	_____	_____	_____

By combining the monthly cash flow reports with an income statement for the year and your beginning and ending balance sheet, you will produce a statement of annual cash flow from operations. The monthly cash flow statement shows your need for seasonal borrowing, while the annual cash flow from operations shows the need for longer-term funds.

G. TEN STEPS TO BUSINESS SUCCESS

1. ***Develop an effective and detailed business plan***. It is the blueprint to your success. Update your business plan to reflect changes as they occur. A good plan should be flexible enough to adapt to a changing environment. Include cash flow projections in your business plan; insufficient working capital can be hazardous.

2. To be successful in small business one must be an ***entrepreneur***, a ***manager*** and a ***technician***.

3. ***Take pride in your business***; it is an extension of yourself. Understand your weaknesses and strengths, your product and the market. Provide your customers with the right product, at the right time.

4. ***Know your competition***, your industry and your target market inside and out. Do not rely on assumptions and hunches.

5. ***Trust yourself and your own judgment*** but take the time to truly know your market well - and the products it values. To stay one step ahead, constantly evaluate your business and its role in the market.

6. ***Serve the needs of the customers***. Be sensitive to their needs, know how to reach them, and most of all, know what will convince them to buy your product or service. Advertising is essential.

7. ***Know your limits***. Are you willing to work day and night to make it work? Don't do it all yourself. Get moral support and the right kind of help to run your business. Professional consultants can help you tap the full resources of your business.

8. ***Carefully select your staff***. They are the faces that people associate with your business. Train them to perform the job to your satisfaction and reward them when the job is well done.

9. ***Treat employees as individuals***. Each has their own strengths, weaknesses and preferences.

10. ***Read relevant newspapers and magazines daily***; become familiar with the financial section. Keep up-to-date so that you may understand the big picture.

H. FEASIBILITY CHECKLIST

This feasibility checklist is designed to help the pre-business person determine whether his idea represents a valid business opportunity. The high failure rate of new businesses indicates that relatively few new businesses result in successful ventures. Too many entrepreneurs strike out on a business venture absolutely convinced of its merits without having adequately evaluated its real potential.

I. PERSONAL CONSIDERATIONS:	Yes	No
1. Do you enjoy working long hours?	____	____
2. Do you have self-discipline & willpower?	____	____
3. Do you meet deadlines easily?	____	____
4. Do you work well under pressure?	____	____
5. Will you jeopardize your home?	____	____
6. Do you have the necessary physical strength?	____	____
7. Does your family support this venture?	____	____
8. Do you have a back-up plan?	____	____

II. EXPERIENCE AND SKILLS:		
1. Does your idea make use of your skills?	____	____
2. Does your idea require skills you do not have?	____	____
3. Can you find experienced personnel at an affordable rate?	____	____
4. Are you experienced in this line of work?	____	____
5. Do you have managerial experience?	____	____
6. Are you able to interpret financial data?	____	____
7. Are you familiar with tax regulations?	____	____
8. Do you know bookkeeping and accounting?	____	____

III. PLANNING AND PREPAREDNESS:		
1. Have you already written a formal business plan?	____	____
2. Do you know exactly what services or products will be offered?	____	____
3. Do you know what customers to target?	____	____
4. Have you arranged for a business location?	____	____
5. Do you have a list of potential suppliers?	____	____
6. Do you know your competitors' businesses well?	____	____
7. Have you arranged for insurance?	____	____
8. Do you have a business license?	____	____
9. Have you investigated advertising & its cost?	____	____
10. Have you hired a competent staff?	____	____

IV. REQUIREMENTS FOR SUCCESS:		
1. Will your proposed business meet unserved needs?	____	____
2. Is there already a similar business in your community?	____	____
3. Can your business successfully compete against its competition because of an advantage such as lower prices or superior service?	____	____

V. DETRIMENTAL FLAWS:

	Yes	No
1. Are you affected by any monopolies, shortages, or restrictions that prevent you from obtaining any necessary items at an affordable price?	____	____
2. Are capital requirements for starting up or continuing operations excessive?	____	____
3. Is adequate financing going to be difficult to obtain?	____	____
4. Does your business adversely affect the environment?	____	____
5. Is your business completely legal?	____	____
6. Are there any factors that prevent effective marketing?	____	____

VI. INCOME:

1. Will your business provide you with your desired level of income?	____	____
2. Do you know your industry's averages - including gross profit, expenses, and net profit as a percent of sales?	____	____
3. Do you know your industry's inventory turnover rate?	____	____
4. Have you prepared an income statement to determine the level of sales necessary to support your desired income level?	____	____
5. From a practical standpoint, can you support the level of sales in question 4?	____	____

This checklist is a tool to help the entrepreneur determine if there are any major obstacles that will prevent the business from becoming successful. Each **NO** answer should be carefully reviewed to determine how great an impact it will have on the business and to see if anything can be done to correct the problems it may create.

II. START-UP GUIDELINES

A. Regulations and Permits

B. Agency Reference List

C. Accounting and Recordkeeping

D. Accounting Systems

E. Insurance

F. Readiness Checklist

A. REGULATIONS AND PERMITS

When determining what licenses and permits are required for your specific business, it is essential to determine what federal, state, county and city requirements must be met. This information should be obtained very early in the research process to determine if a particular type of business is allowable in the area you are considering.

Every person, firm, company, corporation or association engaged in any business, vocation, occupation or profession must obtain a state license, and a county license when required.

Any questions concerning privilege license laws or store license laws should be directed to:

Alabama Department of Revenue
Sales, Use & Business Tax Division
P.O. Box 327550
Montgomery, AL 36132-7550
(334) 353-7827
http://www.ador.state.al.us/licenses/index.html

on the following page is a reference list of agencies and their phone numbers that you can contact to obtain specific information on permits and regulations relating to your particular business.

In addition to this list, it is recommended that entrepreneurs engage the help of a lawyer, preferably a lawyer familiar with the process of starting new businesses. The legal counsel could prove to be invaluable in determining the proper licenses and permits that will be required.

B. AGENCY REFERENCE LIST

FEDERAL

United States Senators:

Jeff Sessions (R) .....(202) 224-4124
Richard Shelby (R) .....(202) 224-5744

United States Representatives:

First District—Jo Bonner.....(202) 225-4931
Second District--Terry Everett.....(202) 225-2901
Third District—Mike Rogers.....(202) 225-3261
Fourth District—Robert Aderholt.....(202) 225-4876
Fifth District--Bud Cramer .....(202) 225-4801
Sixth District--Spencer Bachus .....(202) 225-4921
Seventh District—Artur Davis.....(202) 225-2665

Agencies:

Environmental Protection Agency (General Information) .....(800) 241-1754
Equal Employment Opportunity Commission (Birmingham).....(205) 731-0082
Department of Immigration & Naturalization .....(202) 514-4316
Federal Identification Number (Form SS-4).....1-800 829-3676
Federal Information Center.....1-800 333-4636
Federal Reserve Bank of Atlanta .....(404) 498-8500
Internal Revenue Service 1-800 829-1040
National Climatic Center (North Carolina).....(828) 271-4800
National Flood Insurance Program 1-800-638-6620
Occupational Safety and Health Administration (Birmingham) .....(205) 731-1534
Occupational Safety and Health Administration (Mobile) .....(251) 441-6131
Patents and Trademarks Information (Virginia).....(800) 786-9199
Social Security Administration.....1-800-772-1213
Tennessee Valley Authority (Tennessee) .....(865) 632-2101
Technical Library - Muscle Shoals.....(256) 386-2872
U.S. Census Bureau (Maryland).....(301) 457-4608
U.S. Copyright Information (Washington) .....(202) 707-3000
U.S. Department of Commerce (Birmingham).....(205) 731-1331
U.S. Department of Labor, Wage/Hour Division (Birmingham) .....(205) 731-1305
U.S. Forestry Department .....(202) 205-1760
U.S. Small Business Administration (Birmingham).....(205) 290-7101
U.S. Veterans Administration (Montgomery) .....(334) 213-3407

NOTE: Websites are available at http://www.info.alabama.gov/

STATE

Agricultural Center Board (Montgomery) ..... (334) 242-5597
Agricultural Experiment Station (Auburn) ..... (334) 844-2345
Alabama Archives and History (Montgomery) ..... (334) 242-4441
Alabama Attorney General (Montgomery) ..... (334) 242-7300
Alabama Building Commission (Montgomery) ..... (334) 242-4082
Alabama Bureau of Tourism and Travel (Montgomery) ..... (334) 242-4169
Alabama Commission on Higher Education (Montgomery) ..... (334) 242-1998
Alabama Consumer Protection Agency (Montgomery) ..... (334) 242-7334
Alabama Cooperative Extension Service (Auburn) ..... (334) 844-5323
Alabama Department of Aeronautics (Montgomery) ..... (334) 242-4480
Alabama Department of Agriculture and Industries (Montgomery) ..... (334) 240-7171
Alabama Department of Conservation and Natural Resources (Montgomery) ..... (334) 242-3486
Alabama Department of Economic and Community Affairs (Montgomery) ..... (334) 242-5100
Alabama Department of Education (Montgomery) ..... (334) 242-9950
Alabama Department of Environmental Management (Montgomery) ..... (334) 271-7700
Alabama Department of Human Resources (Montgomery) ..... (334) 242-1310
Alabama Department of Industrial Relations ..... (334) 242-8003
Workmen's Compensation Division (Montgomery) ..... (334) 242-2868
Alabama Department of Information Systems (Montgomery) ..... (334) 242-3244
Alabama Department of Public Health (Montgomery) ..... (334) 206-5300
Alabama Department of Public Safety (Montgomery) ..... (334) 242-4371
Alabama Development Office (Montgomery) ..... (334) 242-0400
Alabama Film Office (Montgomery) ..... (334) 242-4195
Alabama Forestry Commission (Montgomery) ..... (334) 240-9300
Alabama Highway Department (Montgomery) ..... (334) 242-6356
Alabama Historical Commission (Montgomery) ..... (334) 242-3184
Alabama House of Representatives (Montgomery) ..... (334) 242-7600
Alabama Industrial Development Training Program (Montgomery) ..... (334) 242-4158
Alabama International Trade Center (Tuscaloosa) ..... (205) 348-7621
Alabama Labor Department (Montgomery) ..... (334) 242-3460
Alabama Legislative Reference Service (Montgomery) ..... (334) 242-7560
Alabama Public Service Commission (Montgomery) ..... (334) 242-5218
Alabama Revenue Department (Montgomery) ..... (334) 242-1170
Alabama Secretary of State ..... (334) 242-7205
Alabama Securities Commission (Montgomery) ..... (334) 242-2984
Alabama Senate (Montgomery) ..... (334) 242-7800
Alabama Small Business Development Consortium (Birmingham) ..... (205) 307-6510
Alabama State Council on the Arts (Montgomery) ..... (334) 242-4076
Alabama State Docks (Mobile) ..... (334) 441-7100
Center for Business and Economic Research (Tuscaloosa) ..... (205) 348-6191
Commissioner of Insurance (Montgomery) ..... (334) 269-3550
Contractors Licensing Board (Montgomery) ..... (334) 272-5030

The Work Force Development Division ADECA (Montgomery) .....(334) 242-5100
Engineers & Land Surveyors Registrars Board (Montgomery) .....(334) 242-5568
Geological Survey-Oil and Gas Board (Tuscaloosa).....(205) 349-2852
Governor's Office (Montgomery) .....(334) 242-7100
Lieutenant Governor (Montgomery).....(334) 242-7900
Liquified Petroleum Gas Board (Montgomery).....(334) 242-5649
Register New Company Name (Montgomery).....(334) 242-5324
State Banking Department (Montgomery).....(334) 242-3452
State of Alabama Foreign Trade and Relations Commission.....(334) 433-1151
Sales Tax.....(334) 242-1490

Associations:
Alabama Association of Independent Colleges and
Universities (Birmingham) .....(205) 252-6254
Alabama Association of Realtors (Montgomery).....(334) 262-3808
Alabama Association of School Boards (Montgomery).....(334) 277-9700
Alabama Bankers Association (Montgomery).....(334) 834-1890
Alabama Broadcasters Association (Birmingham).....(205) 979-1690
Alabama Climate Center (Huntsville) .....(256) 922-5800
Alabama Coal Association (Birmingham).....(205) 822-0384
Alabama Concrete Industries Association (Montgomery) .....(334) 265-0501
Alabama Education Association (Montgomery) .....(334) 834-9790
Alabama Grocers Association (Birmingham).....(205) 823-5498
Alabama Hospital Association (Montgomery) .....(334) 272-8781
Alabama Hotel and Motel Association (Montgomery) .....(334) 263-3407
Alabama League of Municipalities (Montgomery) .....(334) 262-2566
Alabama Poultry & Egg Association (Montgomery) .....(334) 265-2732
Alabama Restaurant & Food Service Association (Birmingham).....(205) 823-5498
Alabama Retail Association (Montgomery) .....(334) 263-5757
Alabama Road Builders Association (Montgomery).....(334) 832-4331
Alabama Textile Manufacturers Association (Montgomery).....(334) 279-1250
Alabama Travel Council (Montgomery) .....(334) 271-0050
Associated Builders and Contractors of Alabama (Birmingham) .....(205) 870-9768
Association of County Commissions of Alabama (Montgomery) .....(334) 263-7594
Better Business Bureau (Birmingham) .....(205) 558-2222
Business Council of Alabama (Montgomery) .....(334) 834-6000
Medical Association of Alabama (Montgomery) .....(334) 263-6441
Southern Building Code Congress International (Birmingham) .....(205) 591-1853
Southern Growth Policy Board (North Carolina) .....(919) 941-5145

NOTE: If State Agency is not listed call the State Information Operator for assistance at (334) 242-8000. Websites for all state agencies are available at http://www.alabama.gov/portal/government/index.jsp.

Certified Development Companies

Alabama Community Development Corporation
Contact: Diane Roehrig (Birmingham).....(205)942-3360

Birmingham Citywide Local Development Co.
Contact: Jack Coma (Birmingham) .....(205) 254-2799

Southern Development Council
Contact: Business Development Division (Montgomery).....(334) 244-1801

Alabama Small Business Capital
Contact: Dr. Tamara Lee (Montgomery).....(334) 269-3833

Additional sources for assistance may be found at the following website: http://www.ntis.gov

C. ACCOUNTING & RECORDKEEPING

For the individual just going into business, experience clearly indicates that an adequate recordkeeping system helps increase the chances of survival and reduces the probability of early failure. Similarly, for the established business owner, it has been clearly demonstrated that a good recordkeeping system increases the chances of staying in business and of earning large profits.

It is practically impossible to negotiate for a business loan from a bank without properly prepared financial statements. It may even be difficult to secure credit in any form without statements. Bankers and other credit grantors need to study the business owner's balance sheet and income statement in order to decide whether credit should be extended. Sometimes audited financial statements are required; the recordkeeping system must provide the basis for these statements.

Requirements by federal and local government agencies of adequate records are as important as the management and credit importance of financial statements. The responsibility for maintaining records and proving their accuracy falls on the taxpayer. Federal and local income taxes, payroll taxes, sales taxes, personal property taxes, and an increasing number of other laws and regulations require certain reports which are easier to prepare and substantiate if the figures are organized by a good recordkeeping system.

Records backing up government requirements must be available during the audit period. Record retention will depend upon the statute of limitations set forth by local and federal law. It is important to consult an attorney to determine the requirements of governing statutes. Due to the cumulative volume of required records, storage and retrieval can become burdensome. Many business owners are microfilming their old records and microfilming service centers are being called on to solve this problem.

A number of "one-book" recordkeeping systems are available. Some are prepared with instructions and forms designed for specific kinds of businesses, while others are for small business use in general.

Some trade associations, manufacturers and wholesalers offer specially designed recordkeeping systems to meet the general needs of a large variety of retail and service establishments. The owners of a business will often find it desirable to obtain specialized assistance to help them adapt such systems to their special requirements.

There are several copyrighted systems providing simplified records, usually in a simplified record book. These systems cover the basic records with complete instructions for their use.

The Small Business Administration (SBA) has a publication, FM-10 "Record Keeping in a Small Business," that lists many of these systems. Copies of this publication are available online at http://www.sba.gov/library/pubs/fm-10.doc or at the phone number below:

In order for a recordkeeping system to be useful it must be simple to use, easy to understand, reliable, accurate, consistent and designed to provide information on a timely basis. To keep effective records you must be able to:

- Identify the source of a receipt
- Keep track of all deductible expenses
- Figure depreciation allowance
- Take advantage of capital gain and loss laws
- Figure your earnings for self employment tax purposes
- Support items on your tax returns

There are four basic types of records that most firms keep:

- Sales records
- Cash records
- Cash disbursements
- Accounts receivable

If you do not have the necessary experience, it is recommended that you consider hiring a certified public accountant to develop your recordkeeping system.

Public accountants also render other accounting services such as auditing, preparation of reports for government agencies, tax planning, analysis of financial reports and a variety of specialized management advisory services.

D. ACCOUNTING SYSTEMS

Accounting systems range from simple and inexpensive to costly computerized systems. Some of the available options include the one-write system, a ledger less system for accounts receivable and accounts payable, standard ledgers and journals, computerized accounting systems, prepackaged services provided by banks and service bureaus, bookkeeping services and accountants. With this wide variety of options it is important to choose a system that you can understand and feel comfortable using.

The accounting system you choose should meet the needs of your business situation and at the minimum meet the following objectives:

- The system should yield an accurate and precise picture of the operating results
- The records should provide a convenient basis for comparing current data with previous year's operating results and budgetary goals
- The financial data should be presented in a format that is useful to prospective creditors, bankers, auditors and management
- The accounting records should reflect losses such as theft and bad debt
- The accounting process should include compiling and filing reports and tax returns
- The accounting records should be able to substantiate the value of fixed assets for insurance claims, in the event of a loss
- The United States Securities & Exchange Commission requires most publicly held corporations to file certain annual and interim quarterly reports

The accounting system you choose can be established on an accrual or cash basis. In a cash system the accounts are debited and credited as cash is received and paid out. In an accrual system, the income earned and the expenses incurred are recorded when the sale is made or whenever the expense is incurred. The accrual basis of accounting allows the matching of revenues and associated expenses. Due to this matching, the accrual basis is generally considered to be a more accurate and up-to-date statement of profits.

E. INSURANCE

Some small business owners view insurance as if it were some form of tax. They recognize that it is necessary but consider it burdensome. However, if used correctly, insurance can contribute to the overall success of your business by reducing the uncertainties under which you operate. It can also reduce employee turnover, improve your credit at the bank, make it easier to sell to customers on favorable terms and help keep your small business going in case an insured peril interrupts your normal business operations. The importance of good insurance management is too important to overlook. Therefore, it is essential that you discuss your insurance needs with an agent of your choice as early as possible.

Insurance Checklist

Fire Insurance
Liability Insurance
Automobile Insurance
Workers Compensation
Business Interruption Insurance
Crime Insurance
Glass Insurance
Rent Insurance
Employee Benefit Coverage
Aviation Insurance

Group Life Insurance
Business Life Insurance
Group Health Insurance
Disability Insurance
Retirement Insurance
Key Man Insurance
Marine &/or Inland Marine
Boiler & Machinery
Flood Insurance

F. READINESS CHECKLIST

I. THE SITE:	Yes	No
1. Have you decided on a location?	_____	_____
2. Have you found a good building?	_____	_____
3. Is it big enough to allow for growth?	_____	_____
4. Can people get to it easily?	_____	_____
5. Do you have adequate parking available?	_____	_____
6. Do you have a proper sign?	_____	_____
7. Have you signed the necessary papers?	_____	_____
8. Has a lawyer checked the lease and zoning?	_____	_____
9. Are the utilities in line?	_____	_____

II. EQUIPMENT AND OFFICE SUPPLIES:		
1. Do you have the necessary office equipment?	_____	_____
2. Do you have a reliable source?	_____	_____
3. Can you afford to maintain proper levels of supplies and the up-keep of equipment?	_____	_____

III. YOUR MERCHANDISE:		
1. Do you know precisely what will be sold?	_____	_____
2. Are you qualified to sell it?	_____	_____
3. Can you afford the suppliers' prices?	_____	_____
4. Can the supplier provide the services you need?	_____	_____
5. Do you know how to "merchandise" your goods?	_____	_____
6. Do you have the necessary inventory?	_____	_____

IV. RECORDKEEPING:		
1. Have you planned a system of records for income, expenses, etc?	_____	_____
2. Have you worked out an effective inventory tracking system?	_____	_____
3. Do you know how to keep payroll, tax, and payment records?	_____	_____
4. Do you know what financial statements will be needed?	_____	_____
5. Do you have an accountant, if one is needed?	_____	_____

V. LEGAL RECORDS:		
1. Do you have all the necessary licenses and permits?	_____	_____
2. Do you know what business laws you have to obey?	_____	_____
3. Do you have a lawyer with small business expertise?	_____	_____

VI. PROTECTION:		
1. Have you made plans for protecting against both employee and customer theft?	_____	_____
2. Have you talked with an insurance agent about all the kinds of insurance you need?	_____	_____

VII. ADVERTISING:	Yes	No
1. Do you have a marketing plan?	_____	_____
2. Do you know how you will advertise?	_____	_____
3. Can you afford adequate advertising?	_____	_____

VIII. PRICING:

1. Do you know the selling price for each item to be sold? ..... _____ _____
2. Do you know your competitor's price? ..... _____ _____
3. Can you make a profit with the prices at which you intend to sell? ..... _____ _____
4. Do you have a pricing strategy for old merchandise or slow to sell merchandise? ..... _____ _____

IX. BUYING:

1. Do you have a plan for determining what your customers want? ..... _____ _____
2. Is it both workable and affordable? ..... _____ _____
3. Do you have buying experience? ..... _____ _____
4. Do you have reliable suppliers? ..... _____ _____

X. SELLING:

1. Do you have a selling strategy? ..... _____ _____
2. Can you afford the necessary staffing? ..... _____ _____
3. Do you have a plan flexible enough to cover both the slow and peak times? ..... _____ _____
4. Are you and your employees experienced in selling? ..... _____ _____

XI. EMPLOYEES:

1. Have you hired the necessary staff? ..... _____ _____
2. Do they have the needed experience? ..... _____ _____
3. Have you set personnel procedures? ..... _____ _____
4. Do you have a benefits package? ..... _____ _____
5. Do you have a performance appraisal system? ..... _____ _____
6. Do you have a training program and procedure manuals for new employees? ..... _____ _____
7. Do you have an employee recruitment plan? ..... _____ _____
8. Can you offer employees insurance coverage? ..... _____ _____
9. Do you know what the total salaries and benefits will equal? ..... _____ _____
10. Can you afford this figure? ..... _____ _____

XII. CREDIT:

1. Will your customers have the option of buying on credit? ..... _____ _____
2. Have you arranged for the use of credit cards? ..... _____ _____
3. Do you have a method for determining good creditors from the risky ones? ..... _____ _____
4. Have you set credit acceptance procedures for the staff to follow? ..... _____ _____

XIII. OTHERS: Yes No

1. Could you make more money working for someone else? ..... _____ _____
2. Can you afford the loss if the business fails? ..... _____ _____
3. Do you have a plan to repay debts? ..... _____ _____
4. Does your family support you completely? ..... _____ _____
5. Do you have the energy and time to run a business? ..... _____ _____
6. Do you have adequate funding? ..... _____ _____
7. Will you need to mortgage your home or use it as collateral? ..... _____ _____
8. Do you have managerial experience in each aspect of your business? ..... _____ _____

This checklist is an important tool in the planning of your new business. Each of these areas must be addressed by the entrepreneur. By following this checklist, the business owner can deal with many of the problems that face a new venture before they become major obstacles.

Serious consideration should be given to the viability of the venture if the entrepreneur has many questions that cannot be addressed or rectified.

III. GUIDE TO BUSINESS TAXES

A. Introduction to Business Taxes

B. Taxes on the Business Itself

C. Sales, Use & Business Taxes

D. Property Tax

E. Individual & Corporate Tax

F. Employment Tax

G. Tax Numbers

H. Child Labor Provision

A. INTRODUCTION TO BUSINESS TAXES

State Taxes

Some of the most complex issues facing small business owners today are the various taxes and tax structures. This section of "Alabama's Answers" is devoted to business taxes. The following business taxes are covered in this section.

Part B – Taxes on the Business Itself
Part C – Sales & Use Taxes
Part D – Property Tax
Part E – Individual & Corporate Tax
Part F – Employment Taxes

The remainder of this section discusses business licenses, vehicle licenses, tax numbers and forms and child labor laws.

The definitive document for business taxes in the State of Alabama is the "General Summary of State Taxes", published by the Alabama Department of Revenue and available at the following web address http://www.ador.state.al.us/gensum.pdf. In addition, the Alabama Department of Revenue provides a publication entitled, "Starting a New Business – An Educational Brochure for Alabama Taxpayers" available online by going to the following web address: http://www.ador.state.al.us/taxpayerassist/newbus.pdf.

Throughout this section there will be links to web pages that give specific information about the particular tax related topic that is being discussed.

Federal Taxes

As an aid to taxpayers, the IRS will furnish a compact disk (CD) entitled the Small Business Resource Guide 2002 (IRS Publication 3207) on request. It contains all of the business tax forms, instructions, and publications needed by small business owners. In addition, this CD provides an abundance of other helpful information, such as how to prepare a business plan, finding financing for your business, and much more. You can get a single free copy of the Small Business Resource Guide 2002 from the IRS by calling 1-800-829-3676 and asking for publication 3207. You can also order it online by going to www.irs.gov then do a search for small business CD.

The IRS also routinely sponsors small business tax workshops through your local Small Business Development Center. To locate the center nearest you, go to http://www.asbdc.org/mp2contacts.html

B. TAXES ON THE BUSINESS ITSELF

Federal Taxes

Income from proprietorships, partnerships or other unincorporated businesses is subject to individual income taxes of the owners using form 1040 with appropriate schedules. Incorporated businesses are subject to U. S. corporate income tax laws. For further information contact:

Internal Revenue Service
Tax Information
1-800-829-1040
http://www.irs.gov

State Taxes

Like the federal income tax, the state also requires that income from proprietorships, partnerships or other unincorporated businesses be taxed at the state individual income tax rate of the owners. In Alabama, both foreign and domestic corporations are subject to a net income tax and corporate franchise tax. For more information contact the Alabama Taxpayer Service Center nearest you. You can find the centers on the web at http://www.revenue.alabama.gov/salestax/tpservcenters.html and clicking on "Taxpayer Service Centers".

C. SALES, USE AND BUSINESS TAX

- **Sales and Use Taxes***:*

The Alabama Sales, Use and Business Tax Division web page is located at http://www.revenue.alabama.gov/salestax/index.html.

Every aspect of Alabama State Sales and Use Tax is discussed on this site. There is an excellent FAQ (Frequently Asked Questions) section at http://www.ador.state.al.us/salestax/faq.html which discusses e-commerce and mail order sales tax rulings, as well as information regarding who collects and enforces the 37 different taxes in the state.

There are also links to informative web pages on specialty areas such as Business Licensing, Motor Fuels, Severance Tax, Tobacco Tax and Electronic filing.

- **Sales and Use Tax Forms:** www.ador.state.al.us/salestax/stforms.html

  Alabama Revenue Department
  Sales, Use and Business Tax Division
  P.O. Box 327550
  Montgomery, AL 36132
  (334) 353-7827

D. PROPERTY TAX

The Alabama Department of Revenue, Property Tax Division administers property tax within the state. The property Tax Division's web page is www.ador.state.al.us/advalorem/index.html.

This division administers 11 types of state property taxes. The two most assessed property taxes are the Ad Valorem Tax and the Corporate Shares Tax.

Ad Valorem (Property) Tax – Information on the advalorem tax rates for various "classes" of property can be found by going to http://www.ador.state.al.us/advalorem/other/Assessmentinformation.htm and clicking on "Property Assessment Information. This area contains information on classes of property, property tax exemptions and county millage rates. Property Tax forms are also available online.

Corporate Shares Tax – Information on this tax is also available on the Property Tax Division web site. Click on "Operating Sections", then click on "Shares Tax". Here you will find complete information on the assessment of shares of a domestic corporation along with the necessary forms for filing.

E. INDIVIDUAL AND CORPORATE TAX

Corporate Franchise Tax – On March 23, 1999, the United States Supreme Court ruled that the State of Alabama Foreign Corporation Franchise Tax was invalid. The State of Alabama will enact a tax to replace this invalidated franchise tax, however, at this printing a replacement tax has not been placed into law. Upon passage of a new tax, corporations will be notified of their future obligations regarding Alabama's corporate taxes.

Corporate Permit Fee - This is an annual privilege or license tax for the operation of any domestic or foreign corporation in Alabama. For a domestic corporation, the Corporation Permit Fee may be filed on the form FT2-IN (Initial Year Form) or FT2-1 (Annual Form for filing after initial year) which is provided by the Individual and Corporate Tax Division. For the foreign corporation the permit fee may be filed on form FT1-1. The fee rates are as follows:

> Domestic Corporations: $10 if paid capital stock is less than $25,000; $20 from $25,000 to $50,000; $30 from $50,000 to $100,000; $50 from $100,000 to $150,000; and $100 if more than $150,000.
>
> Foreign Corporations: $5 if the capital employed is less than $1,000; $10 from $1,000 to $10,000; $20 from $10,000 to $25,000; $50 from $25,000 to $50,000; and $100 of more than $50,000.

Income Tax - This tax is on the entire net income of every individual and corporation domiciled in Alabama, and of every non-resident deriving income from within Alabama. Income tax is required to be paid throughout the year either by withholding or estimated tax. Withholding of Alabama income tax is required by all employers. Whenever a new employee begins a new job, he or she is required to complete a form A-4, Exemption Certificate, and file it with the employer. The employer withholds Alabama Income Taxes on the basis of the information furnished by the employee on this exemption certificate. If an employer fails to secure a completed A-4 form from his employee, the employer must withhold Alabama Income Taxes on the basis of no exemptions. A Federal form W-4 will not be recognized in lieu of a form A-4. Every employer is required to secure completed exemption certificates from his employees, even though he may not be required to withhold any Alabama income tax. Tax withheld is based on withholding tables or the formula provided in the "State of Alabama Withholding Tax Tables and Instructions for Employers" publication. Assignment of an Alabama withholding tax number is required before an employer may submit Alabama Income Tax to the Department of Revenue. Employers file an application for this withholding tax number. The taxpayer must use this code number to identify all payments of Alabama withholding tax and include the number on all correspondence concerning the business's income tax withholding accounts. A declaration of individual estimated income tax is required of an individual who is subject to income tax if the individual anticipates having income from sources other than wages. In the case of a single or married person filing separately having non-wage income of $1,500 or more and in the case of a married person living with spouse and filing a joint return having non-wage income of $3,000 or more, a declaration of estimated income tax is required. Domestic corporations (corporations created or organized under the laws of the state of Alabama) must pay a corporate income tax imposed on net income at the rate of 5%.

Foreign corporations (corporations created or organized outside the state of Alabama) pay this tax at a rate of 5% also, and it is applicable to the net income from property situated within Alabama and/or from business done and transacted in Alabama. Note: There are special rules with respect to the apportionment of income in the case of foreign corporations having income from both within and outside the state of Alabama. Please contact the Alabama Department of Revenue, Individual and Corporate Tax Division at (334) 242-9800 for more information.

Useful Web Links:

- Individual Income Tax Forms
  http://www.revenue.alabama.gov/incometax/ITformsindex.htm

- Alabama Corporate Income Tax Forms
  http://www.revenue.alabama.gov/incometax/ITcorpfinaexcindex.htm

- S-Corporation FAQ
  http://www.ador.state.al.us/incometax/scorporationfaq.html

- Alabama Payroll Tax Forms
  www.ador.state.al.us/withholding/index.html

F. EMPLOYMENT TAX

Employment related taxes can generally fit into three categories: those taxes you must pay for each employee, taxes you must withhold from each employee's pay and workmen's compensation. Workmen's compensation is not actually a tax but an expense related to employment. Workmen's compensation rates vary depending on industry, occupation and risk factors involved. For more information concerning employment taxes contact the appropriate state or federal agency.

Payroll Taxes - Federal

For federal unemployment tax and federal income tax withholding information contact:

Internal Revenue Service
Tax Information
1-800-829-1040
www.irs.gov

For social security tax (FICA) information contact:

Department of Health & Human Services
Social Security Administration
1-800-772-1213
www.ssa.gov

To order forms contact:

Department of Health & Human Services
Social Security Administration
1-800-772-1213
www.ssa.gov

Payroll Taxes

For state unemployment tax information contact:

Alabama Department of Industrial Relations
Unemployment Compensation
649 Monroe Street
Industrial Relations Building
Montgomery, AL 36131
(334) 242-8830
http://dir.alabama.gov/uc/

For workmen's compensation information contact:

Alabama Department of Industrial Relations
Workmen's Compensation Division
649 Monroe Street
Montgomery, AL 36131
(334) 242-2868
http://dir.alabama.gov/wc/

G. TAX NUMBERS

Federal Employer Identification Tax Number

Every person who pays wages to one or more employees and who has not previously secured an identification number must file with the Internal Revenue Service for an employer identification number. The application must be filed by those who wish to pay wages on or before the seventh day after the date on which business begins. The federal employer identification number will also be needed for use on Alabama tax forms.

To obtain a federal identification tax number contact:

Internal Revenue Service
1-800-829-3676
Ask for form SS-4
www.irs.gov

Alabama Sales Tax Number

Anyone who sells tangible personal property to an end user and collects sales tax must have an Alabama sales tax number. To obtain an Alabama sales tax number contact:

State Department of Revenue
Central Registration
P.O. Box 327790
Montgomery, AL 36132-7790
(334) 242-1490
Ask for form COM 101
http://www.revenue.alabama.gov/taxpayerassist/com-101ff.pdf

Alabama Income Tax Withholding Number

Any business that hires employees and pays wages needs an Alabama income tax withholding number to hold and remit the taxes withheld to the Department of Revenue. To obtain an Alabama income tax withholding number contact:

State Department of Revenue
Income Tax Division
Withholding Tax Section
P.O. Box 327480
Montgomery, AL 36132-7480
(334) 242-1170
Ask for form COM 101
http://www.revenue.alabama.gov/Withholding/index.html

Unemployment Compensation Tax Number

The unemployment compensation tax number is needed in the event that an injury is incurred by someone in your company. This number is used for identification purposes when a report is filed with the Department of Industrial Relations. To an obtain unemployment compensation tax number contact:

Department of Industrial Relations
State of Alabama
Industrial Relations Building
Status Unit
649 Monroe Street, St. Room 416
Montgomery, AL 36131
(334) 242-8830
http://dir.alabama.gov/uc/

Two forms are needed:

1) Form SR2 is used to obtain an unemployment compensation tax number.

2) Form CR4 is used to report wages paid to employees.

H. CHILD LABOR PROVISION

The minimum age for employment outside school hours is age fourteen. Sixteen years is the minimum age for most employment, including many jobs in manufacturing. However, teenagers may not work in jobs that have been declared hazardous by the Secretary of Labor until age eighteen. In Alabama, persons under age twenty-one are prohibited from dispensing alcohol in places where those beverages are served for consumption on the premises.

Teenagers under age sixteen may not exceed forty hours of work in a week during summer vacation and not more than eighteen hours a week when school is in session. Also, during school session, students who are under age eighteen may not work past 10:00 P.M. on nights preceding a school day.

All teenagers under age seventeen who are employed must obtain a work permit for each job they hold.

- For a summary of Federal Child Labor Laws see:
- http://www.dol.gov/esa/regs/compliance/whd/mwposter_PF.htm

- Also a good reference on the Department of Labor site:
- http://www.dol.gov/dol/topic/youthlabor/safetyhealth.htm

IV. SMALL BUSINESS ASSISTANCE

A. Alabama Small Business Development Consortium

1. Small Business Development Centers
2. Procurement Technical Assistance Program of Alabama
3. Alabama International Trade Center

B. Department of Agriculture and Industry

C. Alabama Department of Economic & Community Affairs

D. Alabama Development Office

E. Alabama Cooperative Extension Service

F. Minority Business Development Agency

G. Alabama Chambers of Commerce

H. Alabama State Employment Service

I. Service Corps of Retired Executives

J. Environmental Protection Agency (EPA)

K. Occupational Safety and Health Administration (OSHA)

A. ALABAMA SMALL BUSINESS DEVELOPMENT CONSORTIUM

The Alabama Small Business Development Consortium (ASBDC), hosted by the University of Alabama at Birmingham, provides managerial and technical consulting assistance and training at no cost to current and potential small business persons statewide. This service is offered through ten Small Business Development Centers, the Alabama International Trade Center, and the Alabama Small Business Procurement System.

The Small Business Development Centers are a resource where information, counseling and assistance are coordinated and disseminated to persons who plan to start a small business or are presently operating a small business. The centers also provide the entrepreneur with education and training opportunities which cover a wide range of business topics. Research, both basic and applied, is also available to give the small business person more relevant data from which to draw upon when making decisions. For more information contact the SBDC nearest you. To find the center nearest you, go to www.asbdc.org and click on the "Centers" button.

PROCUREMENT TECHNICAL ASSISTANCE PROGRAM OF ALABAMA

The PTA Program of Alabama assists small businesses throughout Alabama by:

- Notifying businesses of bidding opportunities.
- Counseling businesses on the procurement process and on marketing their products and services to the government.
- Training business owners at procurement workshops.
- Providing opportunities for businesses to network with government agencies and prime contractors.

The PTA Program's bid delivery service operates through Procurement Technical Assistance Centers (PTAC's) in Alabama. The procurement program's central office is in Birmingham, at the state office of the Alabama Small Business Development Consortium. Any business in the state can request the free bid delivery service.

PTAC personnel consult with small businesses to develop a "profile" consisting of precise procurement codes and key words. This profile is then "matched" with bid opportunities as advertised by Federal agencies. A sophisticated search engine takes this developed "profile" and searches every Federal bid board on a daily basis and sends an e-mail to the small business which contains a list of "bid abstracts" that are matched for that day. The small business can then request a bid package for any bid notice that appears to be a good opportunity for them.

Through cooperative agreements with the Defense Logistics Agency of the Department of Defense and the State of Alabama**,** the Procurement Technical Assistance Centers assist firms and counsel them on doing business with the government. Areas of counseling include bid package preparation, 8(a) and other minority programs, military packaging, pricing, bonding, and quality assurance.

Training seminars, held at locations throughout the state, teach business people about the government market and bidding process. Larger procurement conferences provide small businesses the opportunity to network with government agencies and prime contractors.

For more information about the bid-matching service, procurement counseling, or training seminars and conferences, contact the Procurement Counselor at the Small Business Development Center nearest you.

NxLevel:

For more information about NXLevel go to www.asbdc.org/training.htm. Additional information is also available at http://www.nxlevel.org/.

ALABAMA INTERNATIONAL TRADE CENTER

The Alabama International Trade Center (AITC) was founded in 1979, as part of the University of Alabama's outreach services to assist existing industry. The mission of the AITC is to increase the level of export trade activity for small businesses, thereby fostering development and expansion of the economy. Its goals are to: 1) serve existing industry on a confidential, one-on-one basis, 2) assist public and private organizations with trade development by initiating joint projects, researching industries, and targeting foreign markets, and 3) further the University's mission of research and service by focusing on practical international trade education and training.

The AITC works on a one-on-one confidential basis to help small businesses enter and sell in export markets. Services provided free of charge to small businesses include:

- Customized international market research to identify foreign customers
- Targeted export assistance and management training conducted on-site to help small business owners and staff learn the process of exporting
- Export trade financing to access private and public sector financing for export
- Sales

The Center operates as a federal state partnership program with the U.S. Small Business Administration, promoting the official SBA trade programs and export financing programs in Alabama. The AITC is an institutional member of the Alabama Small Business Development Consortium, a statewide network of management and technical assistance centers and a partner with the Alabama Development Office, International Trade Division and its *Export Alabama* network of export assistance programs for small business.

For More Information:

Brian Davis
Alabama International Trade Center
The University of Alabama
201 Bidgood
Box 870396
Tuscaloosa, AL 35487
Phone 1-800-747-AITC
Fax 205-348-6874
www.aitc.ua.edu

B. DEPARTMENT OF AGRICULTURE AND INDUSTRY

The Department of Agriculture and Industry supplies both information and technical support to Alabama's farmers, businesses and consumers. In providing the services, the department acts as a regulatory agency, a service agency and a consumer protection agency all in one.

As a regulatory agency, the department is responsible for the monitoring and enforcement of laws and regulations dealing with meats, poultry, produce, nursery plants, pesticides, over-the-counter drugs, gasoline and motor oils, and agricultural products from seeds to fertilizers. As a service agency, it assists farmers and businesses with seed testing, farm legislation, market reporting, animal and crop disease detection, analysis and prevention, pest detection and eradication, foreign and domestic market development, farm law enforcement, research and numerous other activities.

For more information contact:

Department of Agriculture and Industry
P.O. Box 3336
Montgomery, AL 36109
(334) 240-7171
http://www.agi.state.al.us

C. ALABAMA DEPARTMENT OF ECONOMIC AND COMMUNITY AFFAIRS (ADECA)

The purpose of the Department of Economic and Community Affairs (ADECA) is to provide the Governor with a mechanism to encourage comprehensive and coordinated planning and programming of economic and community affairs within Alabama. The department plays a major role as a coordinating agency for economic development activities. ADECA also focuses on utilizing many existing resources that are available as economic development tools. ADECA makes a strong impact on the state through its role of soliciting grants for programs relating to economic development.

ADECA offers many services including planning and economic development for the state and an education and training division to help train Alabamians to work in industries that relocate here.

For more information contact:

Alabama Department of Economic and Community Affairs
Center for Commerce Building
401 Adams Avenue, Suite 580
P.O. Box 5690
Montgomery, AL 36130-5690
http://www.adeca.alabama.gov

D. ALABAMA DEVELOPMENT OFFICE (ADO)

The Alabama Development Office is an agency of the Governor's office whose primary function is to promote growth through the development of the industrial and technological base in the State of Alabama. The ultimate goal of ADO is to raise the per-capita income of Alabama residents, provide a quality of life conducive to economic development and reduce the rate of unemployment.

ADO will assist businesses planning to relocate manufacturing, processing, warehousing or distribution facilities in Alabama. ADO also maintains the latest factual information on many matters that are relevant to doing business in Alabama. The information that this office has available includes information on industrial sites and buildings, as well as details involving labor, utilities, taxes and tax exemptions and financing. This agency also has information on natural resources, geography, climate, education and the quality of life in Alabama.
The staff of ADO includes experts in the areas of research, tax, finance, community data and other areas to help businesses with a smooth, cost-effective location in Alabama.

For more information contact:

Alabama Development Office
Alabama Center for Commerce Building
401 Adams Avenue
Montgomery, AL 36130
(334) 242-0400 Fax (334) 242-2414
1-800-248-0033
http://www.alabamausa.org/

Small Business Advocacy

The Alabama Development Office recognizes the fact that small business is big business in Alabama. Small businesses are the basis of America's prosperity and economic growth. The Small Business Office of Advocacy fosters the growth of Alabama's small operations by giving them a variety of assistance. The office provides information to businesses, and the needs and concerns of small-business owners are regularly addressed.

Working closely with the Small Business Development Consortium, the agency's Small Business Office will improve communications and coordination with the consortium's eleven Small Business Development Centers at universities throughout the state. The department also participates in joint efforts with ADECA's Office of Minority Business Enterprise, as well as other groups around the state involved in the development of small business.

For more information contact:

Alabama Development Office
Small Business Office of Advocacy
Alabama Center for Commerce Building
401 Adams Avenue, Suite 640
Montgomery, AL 36130
(334) 242-0400
1-800-248-0033
http://www.alabamausa.org/

E. ALABAMA COOPERATIVE EXTENSION SERVICE

This service is provided through county agents living in the counties they serve. These agents carry out the educational programs of the Extension Service on the local level.

The agents are able to provide answers to almost anything to do with agriculture, home economics, 4-H and growth or community development. Through the actions of these agents, the goal is to identify the strengths and weaknesses of the resources of the county and to set reachable goals and workable plans for improvement.
The following are the area offices and phone numbers:

ACES Headquarters, Auburn University.....(334) 844-5270
North Alabama District Office, Huntsville, AL.....(256)372-4975
Florence Office .....(256) 766-4846
Scottsboro Office .....(256) 574-1005
4-H Youth Development Headquarters .....(334) 844-4451
Talladega Office.....(256) 362-6187
Fisheries and Allied Aquacultures.....(334) 844-4786
Southwest Alabama District Office, Selma, AL.....(334) 875-3232
Montgomery Office .....(334) 265-0233
East Alabama District Office, Auburn, AL .....(334) 844-5270
Mobile Office.....(251) 574-8445
Marine Resource and Sea Grant Office, Mobile.....(251) 968-7576

F. MINORITY BUSINESS DEVELOPMENT AGENCY

The Minority Business Development Agency (MBDA) assists minority business in achieving effective and equitable participation in the American free enterprise system and in overcoming social and economic disadvantages that have limited their participation in the past. MBDA provides national policies and leadership in forming and strengthening a partnership of business, industry, and government with the Nation's minority businesses.

Management and technical assistance is provided to minority firms on request, primarily through a network of minority business development centers funded by the Agency. Specialized business assistance is available to minority firms or potential entrepreneurs.

MBDA promotes and coordinates the efforts of other Federal agencies in assisting or providing market opportunities for minority business, primarily through its affiliate network of Minority Business Development Centers. The agency coordinates opportunities for minority firms in the private sector through the funding of business and industry trade associations. Through such public and private cooperative activities, MBDA promotes the participation of federal, state, and local governments, and business and industry in directing resources for the development of strong minority businesses. The agency also operates an Information Clearinghouse for catalogs, publications, and other information for and about the nation's minority businesses.

For further information, contact:

Office of Public Affairs
Minority Business Development Agency
Department of Commerce
Washington, DC 20230
(202) 482-0404
http://www.mbda.gov

Alabama Minority Business Opportunity Center
4715 Alton Ct.
Birmingham, AL. 35210
(205) 957-9779
www.mbocalabama.org

Alabama Minority Business Enterprise Center
110 Beauregard St; Suite 105
Mobile, AL. 36603
(251) 433-2205
http://www.mbecalabama.org/

G. ALABAMA CHAMBERS OF COMMERCE

The Alabama Chambers of Commerce are made up of members of the business community in cities throughout the state. Each city has its own organization and each individual chamber works to promote business opportunities in its area.

The Chambers of Commerce in each city rely on the business people in the community to make this program the "community's business spokesman".

Some of the services that the Chambers of Commerce provides include economic development services, governmental affairs services and community affairs services. These services combine together to help make the business community stronger and more productive.

The goal of the Chamber of Commerce is to provide a focal point for able community leadership to effectively encourage and work for economic growth in business and industry. The mission will thereby enhance the quality of life, represent the interests and advancement of members and promote responsible principles in the conduct of business and government.

To find the Chamber of Commerce in your area, go to http://www.chamberofcommerce.com/ enter the name of your city or county.

H. ALABAMA STATE EMPLOYMENT SERVICE

The Alabama State Employment Service is a good place to begin your efforts to find qualified prospective employees.

The basic function of the Alabama State Employment Service and the ultimate objective toward which its many programs are directed is the job placement of workers. There are 36 full functioning employment offices located throughout the state to provide hiring assistance.

Employers pay for this service through federal unemployment taxes. There is never a fee for employers or applicants. The Employment Service has proven itself for more than fifty years to be an efficient, cost effective system for putting people and jobs together. On any one day, the Employment Service has access to thousands of job seekers locally, statewide, and across the nation.

Some of the services are:

- Individual referrals - we refer applicants to you, including highly qualified veterans with specialized skills, experience and training.
- Recruiting at our offices - we provide space in our office for you to interview applicants.
- Recruiting on location - we assist in processing the applicants at a location you designate.
- Recruiting by appointment - we screen applicants and schedule appointments for you to interview at your convenience.
- Application or resume review - we forward pre-qualified applications and/or resumes to you for your review.
- Applicant processing - you can direct all applicants to our office and we will screen and refer the best qualified candidate when you have an opening.
- Testing - professionally developed and validated tests including typing, shorthand, and aptitude batteries.
- Targeted Jobs Tax Credit - Employment Service will determine applicant eligibility for employers who wish to take advantage of elective tax credits available under Federal Revenue Act of 1978.

A complete Employment Service is as close as your telephone. The employer makes the final selection of qualified applicants referred.

For more information contact:

Department of Industrial Relations
State of Alabama
Employment Service Central Office
649 Monroe Street
Montgomery, AL 36131
(334) 242-8055
https://joblink.alabama.gov/ada/

I. SERVICE CORPS OF RETIRED EXECUTIVES

The Service Corps of Retired Executives (SCORE) is an organization that provides counseling to businesses by individuals who have experience in a particular field but are now retired.

Counselors who have the experience that most closely parallels your needs will be assigned to your case to help solve the problems you are facing in your business venture. These counselors also have access to other retired executives that they can call on if additional counseling is required.

While these services can be quite valuable, they are free and all information that is learned about your business will be kept confidential.

For more information contact the SCORE chapter nearest you. To find the center nearest you, go to www.score.org.

J. ENVIRONMENTAL PROTECTION AGENCY (EPA)

Background

EPA is a regulatory agency created to protect and enhance the environment under the laws enacted by Congress. It is the EPA's responsibility to control and abate pollution in the areas of air, water, solid waste, pesticides, radiation and toxic substances. The EPA is mandated to mount an integrated, coordinated attack on environmental pollution in cooperation with state and local governments.

401 M Street, S.W.
Washington, DC 20460
(202) 382-2080
http://www.epa.gov/

Alabama Department of Environmental Management
1400 Coliseum Blvd.
Montgomery, AL. 36110-2059
(334) 271-7700
www.adem.alabama.gov

Small Business Hotline: (808) 368-5888

This service helps small businesses understand and comply with EPA regulations. Also available is the publication Doing Business with the EPA.

Other EPA Hotlines:

Chemical and Emergency Preparedness .....(800) 535-0202
RCR Superfund Hotline .....(800) 424-9346
Pesticide Telecommunications Network.....(800) 585-7378
Solid Waste Recycling .....(334) 270-5644
Plastic .....(800) 243-5790
Cans.....(800) 876-7274
Foams .....(800) 944-8448

K. OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION (OSHA)

Occupational Safety and Health Administration offices oversee compliance with federal workplace safety and materials-handling regulations. Assistance provided includes information on maintaining a safe workplace and how to comply with OSHA regulations. For additional information, go to http://www.osha.gov/ or call the number below for your area.

OSHA Birmingham .....(205) 731-1534
Mobile .....(251) 441-6131

V. SMALL BUSINESS FINANCING

A. Financing Overview

B. Financing Agencies and Programs

1. Small Business Administration
   a. SBA 504 Loan Program
   b. SBA 7a Program
   c. Additional SBA Programs
2. Southern Development Council
3. Rural Development State Office
4. Private Financing
5. Personal Savings
6. Additional Funds and Programs

A. FINANCING OVERVIEW

The Financing of a small business is normally the biggest obstacle that the entrepreneur has to overcome in the attempt to start up a new business. Developing a sound strategy for obtaining the proper type and amount of financing is crucial for the long-term success of any business opportunity.

There are many different types of financing options available to today's entrepreneur and these options include both public and private sources. The discussion of available financing options that follows will look at some of the more viable options that the entrepreneur has to choose from.

B. FINANCING AGENCIES AND PROGRAMS

Small Business Administration

The SBA offers two general types of financing. The first is the SBA 504 CDC loan program, and the second is the SBA 7a loan guaranty program.

SBA 504 Loan Program

The SBA 504 CDC loan program can provide long term, fixed asset financing to eligible small businesses for the acquisition, construction, expansion or renovation of land and buildings, or purchases of long-life equipment.

A loan from the SBA 504 program is a loan resulting from a 100% SBA guarantee of a debenture sold to the Federal Financing Bank by a Certified Development Corporation (CDC) for up to 40% of the fixed asset costs of a project. With this type of loan there is a $1,000,000 participation limit for the SBA.
The terms for an SBA 504 loan include the fact that a private financial institution must provide up to 50% of the project cost, while a certified development company (CDC) will provide up to 40% of the cost. The principle borrower provides a minimum of 10% of the costs. In return for its participation in this loan, the SBA requires that a minimum of one new job be created for every $35,000 with which it participates and that the assets purchased must be used by the small business.

The process of obtaining this type of loan involves submitting a proposal to a certified development corporation's loan committee, which then submits an application to the SBA. Finance specialists from any one of the following four CDCs will assist the small business in packaging the loan application.

Agency	**Service Area**
Alabama Community Development Corp. ALACOM FINANCE 117 Southcrest Dr. Suite100 Homewood, AL 35209 (205) 942-3360 (800) 239-5909 Contact: Diane D. Roehrig, Mindy Parker, Diane McDonald	All counties in Alabama except Washington, Choctaw and Sumter.
Birmingham City Wide Local Development Co. 710 North 20th Street Birmingham, AL 35203 (205) 254-2799 Contact: Jack Coma	City of Birmingham only
Southern Development Council 8132 Old Federal Rd. Montgomery, AL 36117 (205) 244-1801 Contact: John Reynolds, Everett Strong	All counties in Alabama, SW Florida and Mississippi
Greater Mobile Development Corporation 205 Government Street 2nd Floor, South Tower Mobile, AL 36602 Phone: (334) 434-7591 Contact: Teresa Jacobs	Mobile & Baldwin Counties
Alabama Small Business Capital 400 S. Union St., Suite 395 Montgomery, AL 36104 Phone: (334) 269-3833 Contact: Dr. Tamara Lee	All counties in Alabama

SBA 7a Loan Program

The SBA 7a loan program can provide small businesses with long term financing for either fixed assets or working capital and has no specific job creation requirements.
The SBA 7a program is a guarantee of up to 80% of a bank loan not over $100,000, and up to 75% to a maximum of $750,000 of a bank loan exceeding $100,000. The most attractive feature of the 7a program is that through its risk reduction to the bank, capital is made more accessible to the business.

Additional SBA Programs

While the 504 and 7a type loans are the primary lending programs of the SBA, they do provide a number of other assistance programs. These additional loan programs include the:

. low doc loan program
. export working capital programs;
. international trade loans;
. seasonal lines of credit;
. contract lines of credit;
. asset based lines of credit;
. pollution control loans;
. small general contractor financing;

Also, as part of the SBA's goal of helping to provide financing to small businesses, they license financial organizations to act as Small Business Investment Companies (SBIC). These SBIC's are very similar to venture capital companies and are privately owned and managed. For more information you can contact:

U.S. Small Business Administration
801 Tom Martin Drive, Suite 201
Birmingham, AL 35211
(205) 290-7101
www.sba.gov/

Southern Development Council

The Southern Development Council is a statewide, nonprofit, financial packaging corporation that helps small to medium size businesses arrange long-term, fixed asset financing so that these businesses can finance their expansion or location in Alabama.

The SDC utilizes both public financing programs and Alabama banks as sources for a financial package that is best suited to each firm's individual needs. The staff of the SDC is experienced in both private bank financing and public finance programs. By using both of these types of financing, the SDC is able to put together a loan package that spreads the risk each lender must undertake, which results in safer loans for the banker. This, in turn, allows the business to receive financing that a single lender is normally unable to provide. For more information on this financing opportunity you can contact the Southern Development Council at the following address:

Southern Development Council
8132 Old Federal Rd
Montgomery, AL 36117
(334) 244-1801

U.S. Department of Agriculture-Rural Development

The U.S. Department of Agriculture (USDA), through the Rural Development State Office guarantees term loans to non-farming businesses in rural areas. The Rural Development does not make direct loans under this program. The program offered by the USDA Rural Development is similar to that offered by the SBA 7a program but is larger in scope. The USDA Rural Development program offers guarantees up to 80% on loans between $750,000 and $10,000,000. One stipulation of the program is that those businesses who apply for this type of loan must be located in communities with populations under 50,000. Priority will be given to those communities with populations less than 25,000.

This program allows fixed assets to be financed for up to 30 years; machinery and equipment up to 15 years; and working capital up to 7 years. The USDA Rural Development requires existing businesses to provide 10% tangible balance sheet equity and new businesses must provide 20% - 25% tangible balance sheet equity. Due to the fact that this is a public program, job creation and retention are priorities.

Another program that the USDA Rural Development offers is a program aimed at communities that provide low interest loans to finance water and waste infrastructure and other essential community facilities such as fire, rescue and public safety; health services; and community, social and cultural services. The interest rates for this program are based on the community's median family income.

The USDA Rural Development has a relatively new community program guaranteed program. Under this program a guarantee will normally not exceed 80%; and loan purposes are the same as community program insured loans.

For information on this financing opportunity, contact:

USDA Rural Development
Sterling Center, Suite 601
4121 Carmichael Road
Montgomery, AL 36106-3683
(334) 279-3400
http://www.rurdev.usda.gov/al

Private Financing

The major source of private financing is direct bank loans. These are loans that are negotiated directly with a bank and the terms of the loan are based on the bank's requirements.

The key to successfully obtaining a loan of this type is to be fully prepared before you ever even talk to a banker. This preparation includes writing a detailed and accurate business plan. A good business plan tells the banker you are fully prepared to enter into this business opportunity and will increase his faith in you and your ability to make a success of the business.

It is estimated that 90% of all the prospective borrowers that come to a bank for a loan are not prepared. Since bankers do not have the time to do the research for the borrower, it is safest and easiest for them to say no. The following is a list of suggestions to help increase your chances of getting a loan:

- Prepare the detailed business plan complete with financial statements.
- Pick a bank that has a reputation for making small business loans.
- Make an appointment to meet with the banker. Do not just walk in.
- Demonstrate your good character to the banker. This is one of the most crucial deciding factors.
- Know what type of loan you want and how much of a loan you will need.
- Be prepared to personally guarantee the loan or meet certain equity requirements.
- Be honest with the banker and answer all questions openly and honestly.

Personal Savings

Another widely used source of funds is the savings of the entrepreneur. These savings and those of other family members are a viable source of funds and show future creditors that the owners of the business are willing to personally stand behind their business. This type of faith is what banks and other creditors like to see before lending money to any small business operation.

Another advantage to financing a business through personal or family savings is the fact that it is less risky than bank financing and it is also less costly. Reducing risk and expenses early in the life of a business are two factors that help to insure the long run success of a business. For these reasons this financing option should be given every consideration.

Personal budgeting experience is another factor that bankers look for when they evaluate a person's loan potential. Those people who demonstrate that they can set up and follow a personal budget impress the banker as having the skill and experience necessary to develop and follow a budget for a business, which is a critical factor in the success or failure of a business.

Due to the fact that budgeting is such an important part of the business cycle, it is recommended that anyone considering opening a business should develop a personal budget simply because it is good experience and bankers are impressed with those people who have budgeting experience.

Additional Funds and Programs

1) Jefferson County Business Loan Fund

This loan can be used for purchasing real estate, construction, working capital or machinery and equipment. This loan can be for an amount up to 50% of the amount of the contract.

There are requirements for location, for jobs created, and for who is eligible to apply. For more information contact:

Planning and Community Development
716 Richard Arington Jr. Blvd. N.
Suite A403
Birmingham, AL 35203
(205) 325-5761

2) Economic Development Administration

The Economic Development Administration provides direct loans and loan guarantees to businesses in areas of high unemployment or low family income. For further information contact:

Economic Development Administration
Room 705
474 South Court Street
Montgomery, AL 36104

3) Alabama Link Deposit Program

The Alabama Link Deposit Program is a public/private partnership designed to help stimulate economic growth and development in the state. The State Treasurer will use a small portion of the state investment portfolio to deposit with Alabama banks or savings and loan associations and "link" these deposits to individual loans made to eligible small businesses or farmers. The financial institution will pay up to a 3% lower rate on the state deposits and must charge a corresponding lower rate to the borrower.

To apply for a "Linked Deposit" loan the following process should be followed:

- The borrower should go to a bank or savings and loan association and complete an application for a "Linked Deposit" loan.

- The bank or savings and loan association will review the loan application and apply its own criteria for credit worthiness.

- If the program requirements are met, the treasurer's office will notify the bank or savings and loan association.

- The bank or savings and loan association will then make the loan to the borrower.

To qualify for this type of small business loan any person, corporation or partnership engaged in business and that meets the following criteria may be eligible to receive a "Linked Deposit" loan. The small business must be:

- Headquartered in Alabama
- Organized for profit
- Maintaining facilities exclusively in Alabama
- Having no more than 150 employees
- Having debts equal to or greater than 35% of assets
- Creating and sustaining job opportunities

There is no maximum amount for the loan but one job must be created or sustained for each $15,000 of loan. Loan requests above $250,000 must demonstrate that one job can be created for each $10,000 of loan. The "Linked Deposit" is only available for two years; however, the loan may be made for 5-10 years or longer. The lower rate would apply only to the first two years of the loan. Examples of uses of this type of loan include:

- Land, Building and Equipment
- Repairs, Renovations
- Rent, Utilities, Insurance, Taxes
- Legal, Accounting Fees
- Wages, Inventory

A joint publication of

Alabama Development Office
Office of Small Business Advocacy
Alabama Center for Commerce
401 Adams Avenue
Montgomery, AL 36130
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