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IN BOX

Consider options to raise capital

Karen E. Klein

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Dear Karen:
I'd like to expand my company and need to raise a substantial amount of capital to do so. How do I determine the true costs and benefits of various kinds of investment?

Answer:
Talk to a professional about the myriad funding choices out there and which is best for your firm. Generally, a bank loan or line of credit is the least costly option, but you'll need hard assets -- such as your home or business equipment -- as collateral.

Equity financing -- from a private investor, venture capital group or private equity firm -- contains no repayment obligation but typically entails equity dilution and loss of absolute control over business decisions.

It's also tough to get, and investors will want an exit strategy usually within two to five years.

Another option is "factoring," which amounts to selling your accounts receivable at a discount for immediate cash. Factoring is costly but generally easy to get, particularly in certain industries.

Or you could seek out a business cash advance, such as that offered by RapidAdvance, which funds small businesses by purchasing their future credit card receivables at a 26% discount. "It is more costly than a bank loan but provides benefits including a simple application process, funding within 10 days, access to funding even if the merchant has less-than-perfect credit, and no liens or collateral requirements," said Lee Jundanian, the firm's chief executive.

An S-corporation may save on taxes

Dear Karen:
I am a software consultant. If I start a limited liability company and draw a salary, could I save on taxes?

Answer:
Probably not. A single-member LLC is regarded as a sole proprietorship for tax purposes, so your tax liability wouldn't change.

However, you may benefit from forming an S-corporation, in which flow-through income is not subject to self-employment tax as it is in an LLC or sole proprietorship, said Douglas Schellenberg of Los Angeles-based CBIZ Accounting, Tax & Advisory Services.

"If you set up the S-corp. and draw a salary, you may potentially save self-employment tax on the difference between your Schedule C income and the salary you draw from the S-corporation," he said. What's unclear is whether that savings would offset the additional expense involved with a corporation.

Also, the Internal Revenue Service "may argue that your salary drawn from the S-corporation is too low . . . and there is potential legislation to make flow-through income from a wholly owned S-corporation subject to self-employment tax," Schellenberg said. Talk to a tax professional about your options.

A retirement plan isn't too hard

Dear Karen: How difficult is it to set up a small-business retirement plan?

Answer:
It's not terribly difficult, but many entrepreneurs are so focused on running their businesses that they never make the time to set one up. "I refer to the basic obstacles that keep business owners from implementing a plan as the three Cs: cost, complexity and commitment," said Tom Foster, who is with the national retirement plans group at Hartford Financial Services.

Small-business owners often consider a retirement plan too expensive, but there are cost-effective plans that offer benefits to the owner and his or her employees.

"A well-constructed retirement plan addresses any concerns about the perceived burden of a long-term commitment," Foster said. "Current laws permit profit-sharing plans that allow discretionary employer contributions, so a business owner is not obligated to fund the plan in leaner years."