

Finance and Taxes for the Home-Based Business

Authors: **Charles Lickson** and
Bryane Lickson
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Reviewer: **George Haynes**
Montana State University

This book should be required reading for individuals contemplating the ownership of a home-based business for the first time. While the book has some minor shortcomings, it provides a sufficiently thorough and technical, yet comprehensible, introduction to the establishment of a home-based business. The purpose of the book is to introduce the budding home-based business owner to the world of business ownership. The first three chapters assess the individual's aptitude for owning a business and advise them on the nuts and bolts of business planning. Chapters 4 and 5 address legal concerns of the firms, including the choice a legal organization (sole proprietorship, partnership, sub-chapter S corporation, general corporation or joint venture) and methods of protecting the firm's intellectual property. The essence of the book is contained in chapters 6 through 9, where authors provide an insightful discussion of financing choices, contracting concerns, business valuation and tax considerations of the business owners. While the authors have targeted the budding home-based business owner, the book adequately addresses many of the critical issues faced by any first time small business owner, regardless of their decision to work at home.

Even though the book highlights finance and taxes, the individual aptitude and business planning chapters provide valuable insight to the prospective business owner. While the authors follow other "start-up" books by choosing a list of questions to ascertain the aptitude of the individual, they include valuable suggestions on working efficiently at home and keeping positively focused on the business activity. In order to highlight the importance of keeping focused, the authors compare the dangers and benefits of each of the roles of a small business owner. The planning chapter contains a condensed description of a business plan and insightful warnings about the hazards of rapid growth.

Once the business has been deemed feasible, the

prospective business owner is faced with a host of legal questions. Two of the important legal questions the owner must face are choosing a legal organization for the business and protecting business (intellectual) property. The authors provide a concise and cogent discussion of the tradeoffs among liability, control and capital access in choosing a legal organization. The prospective business owner is guided through the mine field of choosing a legal organization by considering four practical questions: what will the business do, how will the business be financed, what are the owners long term goals and will the business have employees. The second legal question concerning the protection of business property focuses on patents, copyrights, trademarks and trade secret protections. This section provides a useful discussion of how to establish and defend intellectual property rights. While very few home-based businesses utilize these instruments, almost all home businesses utilize property and liability insurance to protect their assets. A more comprehensive discussion of risk avoidance (or insurance) would be useful to most budding home-based business owners.

After a careful reading of the first five chapters the prospective home-based business owner should have determined if a financially feasible business venture is presenting itself. For a majority (around 60 %) of business owners, the next step is to utilize the business plan to generate financial capital. The authors adequately address raising capital from traditional lenders (such as commercial banks, thrifts and credit unions), non-traditional lenders (such as leasing companies) and non-financial sources (family and friends, owners and other individuals and businesses). Curiously, the authors failed to discuss finance companies, the one of the largest sources of financial capital for small businesses; and, the use of credit cards. The finance company omission is especially important for small businesses because finance companies are important business counselors, helping to compile business plans, and critical sources of short- and

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long-term financial capital. In addition, the financial landscape is changing very rapidly, where nearly 40 % of all small businesses use personal and business credit cards for business purposes. And finally, equity financing, especially angel and venture capital sources, deserve an insightful and thorough discussion to complete this chapter on sources of financing. Subsequent editions of this book should consider the role of finance and credit card companies and angel and venture capital in the market for financial capital.

Not only are the sources of capital changing, but the methods of evaluating borrowers are also changing. While the authors provide an accurate, albeit general, discussion of the credit worthiness of the borrower, lending technology has rapidly moved to loan scoring models. As lenders becoming larger through mergers and acquisitions, less lending authority resides in the community and more authority resides at the central bank, hence lenders will focus on objective, rather than subjective, measures of success. Subsequent editions of the book should include a section on loan scoring and the ?rules of game? when negotiating with large and small lenders.

Once the business is open nearly every transaction will involve a contractual obligation. The authors provide an interesting discussion of the implications of the Uniform Commercial Code (UCC) on business transactions. This chapter should be read periodically by every business owner to remind them of the importance of secured transactions. This chapter is especially important for those home businesses selling high-ticket items and offering financing terms to customers.

A profitable business accrues value over time. In fact, a successful business often poses a difficult dilemma for the owner - should the business be sold or passed onto some family member. While any discussion of succession is well beyond the bounds of this book, the authors have attempted to assist the business owner in valuing the business. The discussion of the ?Gill Formula? is very difficult reading for the non-technical business owner to understand. These tasks are often best performed by business appraisers in the local market, rather than naïve models.

Chapter 9 is an excellent discussion of the tax and retirement account considerations faced by home based business owners. This section addresses the issue germane to utilizing a home office ? is the office space deductible? Most importantly, this chapter supplies very

useful checklists to determine the deductibility of home office expenses. In addition, the authors provide a very useful summary of accounting year considerations, which tax returns to file and self-employment taxes. Retirement accounts require careful planning, especially if the business hires any employees. The book provides a insightful synopsis of three plans (Individual Retirement Accounts, Simplified Employee Pension Plan and Keogh Plans).

The authors provide interesting insights and practical suggestions to the business owner. However, apart from sections on working efficiently at home and home office expenses the authors are really focusing on small business owners, rather than home-based small business owners. Future editions of the book should carefully discuss the challenges of integrating a business enterprise into the household for each topic presented. From decisions about where to locate an office in the home to the assignment of family assets to secure business debts the inter-mingling of business and family resources seems to be germane to establishing a home business.

The authors have made a significant contribution to the budding home business owner by writing a sufficiently technical, yet comprehensible, book on the financial and tax considerations of starting a home-based business. Every individual contemplating a business start-up for the first time should consider reading this book.