Colorado

COLORADO BUSINESS RESOURCE GUIDE

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SBA — Your Small Business Resource

Colorado SBDC Network

SCORE

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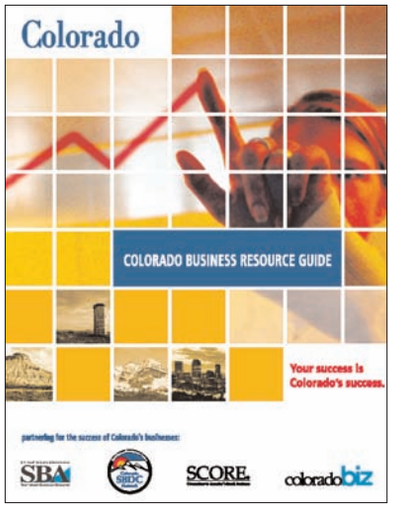
A PARTNERSHIP FOR BUSINESS SUCCESS – COLORADO STYLE!



DEAR ENTREPRENEUR,

Thank you for requesting The Colorado Business Resource Guide! This book is one of the most successful and comprehensive business start-up guides in the nation. The Colorado Business Resource Guide is made possible by a collaborative effort between federal and state business assistance agencies and the private sector. As federal and state agency budgets are reduced, this public-private partnership has become the most cost-effective way to produce this tremendous guide. Since its inception in 1998, more than 200,000 copies of The Colorado Resource Guide have been distributed to entrepreneurs across Colorado and the nation. This year's partners include: *ColoradoBiz* Magazine, the U.S. Small Business Administration, Colorado District Office, Colorado Office of Economic Development and International Trade, Colorado Small Business Development Centers, and SCORE, Counselors to America's Small Business. There has never been a better time to join Colorado's business community. Over the years, several national publications have ranked Colorado as one of the best places in the country to start, build and grow a new small business. Nearly 98% of all firms in Colorado are considered small. Over 52% of all private sector workers are employed by small businesses. Small business is big business in Colorado! Get involved and take advantage of the support, education and business information outlined in The Colorado Business Resource Guide. Make it a permanent and well-used resource. Our programs will provide invaluable assistance, support and information as you progress through the various stages of your business' growth. Please let us know how we can be of service - we are only a phone call away.

BEST OF LUCK IN ALL YOUR FUTURE BUSINESS ENDEAVORS.

Small Business Development Centers
Colorado SBDC Network

SBA
U.S. Small Business Administration

SCORE®
Counselors to America's Small Business

This publication was produced by the U.S. Small Business Administration (SBA) in co-sponsorship with the Colorado Office of Economic Development and International Trade. All of the text in this publication was prepared by the SBA or its resource partners.

In activities of this nature views and opinions are not necessarily those of the co-sponsors. SBA's participation in this insert does not constitute or imply its endorsement of any opinions, products and/or services included in this supplement. (SBA authorization # 04-0811-58.) All SBA programs are extended to the public on a nondiscriminatory basis.

For the SBA office nearest you, check the U.S. Government pages in the telephone directory, visit our website at www.sba.gov, or call the U. S. Small Business Administration's Colorado District Office at (303) 844-2607. For the hearing-impaired, the TDD number is 1-800-844-6538. The FAX number is (303) 844-6490.

THE COLORADO BUSINESS RESOURCE GUIDE

This guide is the product of a joint effort by the Colorado Office of Economic Development and International Trade (OEDIT), the Colorado Small Business Development Centers (SBDC), the U.S. Small Business Administration (SBA), Colorado District Office and SCORE, Counselors to America's Small Business. It provides general information to assist you in starting and maintaining a business in Colorado. This Guide references most city, state and federal forms needed to establish a business in Colorado. Depending on your individual requirements, you may obtain these forms on the Internet or request an individual packet:

- **The application for the Employer Identification Number, Form SS-4**

  This application is for a Federal Employer Identification Number (FEIN) which must be filed by all businesses except sole proprietors. A sole proprietor is only required to file this form if he/she will have employees. A sole proprietor without employees may be asked for an FEIN by a banking institution, but it is not required. A Sole Proprietor uses his/her Social Security number for income tax purposes. There is no fee associated with processing the application or issuing an FEIN. You can apply by mail or fax.
- **Industry Specific Licensing Information**

  This is included when there are state and/or federal licensing, permitting or registration requirements for your particular business.
- **The Colorado Business Registration, Form CR100**

  This is a multipurpose form used to: register a trade name, open state sales and use tax accounts, and establish state withholding and unemployment insurance accounts.
- **The Trade Name Registration, Form DR0592**

  This is the application used by general partnerships and sole proprietors who only need to register their trade name.
- **The Sales Tax Special Events Application, Form DR0589**

  This is the application used to obtain single and multiple event sales tax licenses and may be used to register a trade name.
- **City Sales Tax Applications**

  These are required for city sales tax licenses or business registration. For city forms, contact the appropriate city clerk.
- **Secretary of State Forms**

  To obtain any forms that must be filed with the Secretary of State, please contact the Secretary of State directly at (303) 894-2200 or

  www.sos.state.co.us

GOOD LUCK AND BEST WISHES FOR A PROSPEROUS FUTURE IN YOUR NEW BUSINESS!

If you need applications or have further questions, please contact:

SBDC SMALL BUSINESS HOTLINE
at (303) 592-5920,

COLORADO BUSINESS RESOURCE CENTER
at (970) 339-6427,
or your local SBDC office or SCORE chapter listed in the Sources of Assistance chapter of this Guide.

This Guide provides basic information for starting a business in Colorado. However, it must be stressed that this is only a starting point. It is not intended to provide legal advice or replace the services of an individual business attorney or accountant. You may need additional permits, regulatory requirements or forms. For example, this Guide does not include operating agreements, by-laws, workers' compensation applications, other insurance applications, or tax returns. Operating your own business will require additional research for planning, marketing, and financing of your business. Local SBDC and SCORE counselors can assist you with many of these issues but cannot provide legal advice.

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STARTING A BUSINESS CHECKLIST

Starting a business is risky. Understanding the risks and reducing them through careful planning improves the chances for business success. You should be fully aware of the implications of owning your own business. A new business venture will affect both you and your family. Carefully analyze your reasons for starting a business. How will it fit with your family and your lifestyle?

Ask Yourself the Following Questions:

☑ Am I a self-starter? Do I have the discipline to maintain a schedule?

☑ Do I want to earn more money? Will this business earn more money from the beginning or do I need to be prepared to initially work for less?

☑ Do I want to be more creative? Do I have the necessary skills to be successful in this business?

☑ Am I looking for more flexibility in my work and family schedule? Will this business allow me to work the schedule I desire?

☑ Am I ready for different challenges and adventures? Am I prepared to respond quickly to the needs of my business?

☑ Have I discussed this proposed business with my family?

☑ Do I have the money needed for business start-up and initial operating expenses until I start earning a profit?

☑ Decide upon the legal structure of your business, choose a business name and register your business with the appropriate city, state and/or federal agencies. Sole proprietors, general partnerships, and unincorporated non-profit associations register with the Colorado Department of Revenue. All other forms of legal structure file with the Colorado Secretary of State. Refer to the Legal Structure and Registration chapter of this Guide.

☑ If your business will have employees, you must open federal, state and local wage withholding and payroll tax accounts. File Form CR100 with the Colorado Department of Revenue. File Form SS-4, Application for Employer Identification Number, with the Internal Revenue Service, by mail, fax or Tele-tin. Obtain workers' compensation insurance from a private insurance carrier, an independent insurance agent or Pinnacol Assurance. Refer to the Employer Responsibilities chapter of this Guide.

☑ If your business will be selling, renting or leasing tangible personal property, you must obtain the proper state sales tax license from the Department of Revenue and determine if a separate local sales tax license is also required. Sales tax licenses are also required if you rent accommodations for less than 30 days. Refer to the Colorado Sales Tax chapter of this Guide. Starting a business is risky. Understanding the risks and reducing them through careful planning improves the chances for business success. You should be fully aware of the implications of owning your own business. A new business venture will affect both you and your family. Carefully analyze your reasons for starting a business. How will it fit with your family and your lifestyle?

☑ Be aware of the personal and business tax implications of starting your own business. Refer to the Income and Property Tax chapter of this Guide and/or contact the Internal Revenue Service at 1-800-829-1040 or www.irs.gov for more information.

☑ Define the products or services you will provide. Is there actually a need for what you will provide in today's marketplace? Is the demand great enough to be profitable? Who are your competitors? What is your competitive advantage? Develop your marketing strategy. Refer to the Marketing chapter of this Guide.

☑ Are there any special licenses required for the business you are starting? If you need industry specific information, call the SBDC Small Business Hotline at (303) 592-5920 The BAC has comprehensive information on federal, state and local business licensing requirements.

☑ Find the best location for your business. The Colorado Department of Transportation, 4201 E. Arkansas Ave., West Annex, Room A-100, Denver, CO 80222, (303) 757-9488 or www.dot.state.co.us has information on traffic patterns on state highways. Some local governments have information on city and county roads. They may also have information on local population demographics. The U.S. Census Bureau, (303) 264-0220, and Colorado State Data

The best advice for anyone starting or operating a business is to **EDUCATE YOURSELF.** This Guide is only a first step. It outlines the basic information you need to start your business. The following checklist can be used as a guide as you start your business.

Center, (303) 866-4147, are also useful resources for population demographics. Be sure to observe pedestrian movement during business hours to estimate walk-in potential.

☑ Check with the city and county government authorities regarding any special business regulations, sales taxes, personal property taxes and zoning restrictions affecting your business for every location where you conduct business.

☑ Seek management advice and counseling. Assemble your team of professional advisors, i.e., accountant, attorney, insurance broker, real estate agent, etc. Your local Small Business Development Center, SCORE chapter, the Small Business Administration, trade associations and your local chamber of commerce are good resources. Refer to the Choosing Advisors and the Sources of Assistance chapters of this Guide.

☑ Develop a sound business plan with specific goals and objectives. A business plan should outline your background including your strengths and weaknesses. Evaluate where you are today and develop a plan to achieve your goals. Refer to the Business Plan chapter of this Guide.

☑ Develop a financial plan, including profit and loss projections, cash flow analysis and capital requirements. Determine the proper pricing strategy for your product or service. Do you have enough resources to adequately support your business and yourself until you begin making a profit? What type of financing will your business need? What financing options are realistic for your situation? Refer to the Business Plan and the Financing Options chapters of this Guide.

☑ Identify your liability risks. Obtain adequate insurance coverage. Protect your business activities far enough in advance to cover your growth. Refer to the Liabilities and Insurance chapter of this Guide.

☑ Protect your ideas, products, symbols and logos through proper registration and maintenance. Refer to the Trademarks, Copyrights and Patents chapter of this Guide.

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THINK AGAIN.

Get Microsoft Small Business Server 2003 – with 25 GB of offsite backup, a firewall, unlimited anytime support, Outlook and web e-mail, spam protection, anti-virus, regular hardware and software upgrades, and SQL Server installed on your company premises for a low monthly fee.

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BUSINESS ENTRY OPTIONS

There are typically three avenues available when going into business: starting a new venture, buying an existing business or purchasing a franchise. It is advisable to seek professional accounting and legal help before starting any business.

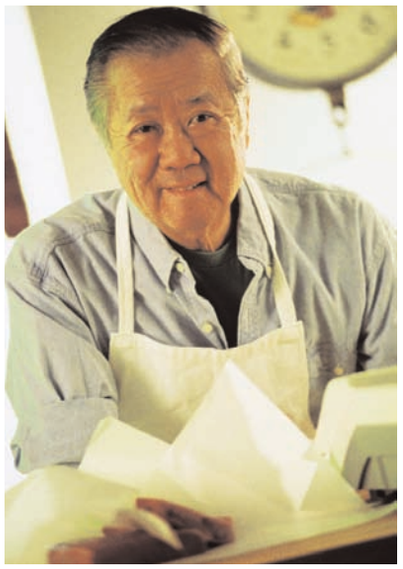
Starting a New Venture

A new start-up is typically pursued when you have a unique idea that requires special equipment, specialized talents or a new way of doing things. A new venture may also be pursued when there is a customer base you can serve, or you are aware of an unfilled market need (e.g., there is not a dry cleaner within 12 square miles). The principal advantage of starting a new business is that you are in control of how you want your business to operate. There will be no negative history or track record to overcome. You will be able to provide your product or service the way you think it should be provided. The principal disadvantage is the need to start from scratch and to set everything up from square one. Factors you need to consider when forming a new venture include: legal structure, location, marketing and advertising, facilities, equipment, employees, taxes, a records system and capital.

Buying an Existing Business

Buying an existing business can have its advantages. By purchasing a business that is already established, you may eliminate some of the problems associated with starting a brand new business. However, when you acquire an existing business, you may also acquire its debts. Purchasing an existing business can be fairly complex. The following is a brief summary of some of the concerns of which you should be aware:

- How successful is the business? How well known is the business? How loyal are the customers to the business? Is their loyalty based upon the current ownership?
- Do you know why the seller is selling the business? If the business has not been profitable, find out why. Do you have a plan to make it profitable?
- Does your purchase agreement include the sale of the business name? The property? The equipment and inventory? The debts? Be sure the exact terms of the sale are explained clearly, in writing, before you buy.
- Ask the seller about outstanding claims on inventory, equipment and fixtures. Whose responsibility will it be to settle these claims?
- Are there liens against the property you are buying? Check with the seller and recorder's office in the county where the business and the seller are located. Check with the Colorado Secretary of State, Uniform Commercial Code Section, 1560 Broadway, Suite 200, Denver, CO 80202, (303) 894- 2200 then press 2, or at www.sos.state.co.us for records of any security interests that may have been filed as liens against the property or assets of the business.
- Will the owner of the building transfer the lease to you? What are the terms and restrictions of the lease?
- Review the business' past and current financial statements. Are they in good order? Examine any existing contracts that affect the business.
- Can you transfer the existing phone number? The phone service may require information from both you and the seller.



IF THERE ARE EMPLOYEES IN THE BUSINESS

You will be responsible for withholding income tax, Social Security (FICA), Medicare and local employment taxes. You will have to pay the employers portion of FICA, Medicare and local employment taxes. You must open new employee payroll accounts unless you buy out the stock of an existing corporation or membership in a limited liability company and do not set up a new business entity. In every case, the unemployment history established under the former owners will transfer to your unemployment insurance account. When you purchase the business, the former owner should file Form UILT-2 to report the change in ownership for unemployment tax purposes. For more information on payroll tax requirements see the Employer Responsibilities chapter of this Guide.

Tax Liabilities

If you purchase a retail business you may be liable for sales tax debts of the business. As a precaution, you should get a tax status letter from the Colorado Department of Revenue before buying. The tax status letter must be requested by the current owner using Form DR0096. Tax status letters may be requested on all state collected tax accounts including sales tax, wage withholding and corporate income tax accounts. There is a $10 charge for each tax letter requested. If you purchase a corporation or limited liability company, you may have the option of keeping the same sales tax account with

the Colorado Department of Revenue. If you purchase a sole proprietorship or a partnership, you are required to open a new sales tax account. When you purchase tangible property as part of a business, such as furniture, fixtures or equipment (new or used) for which you have not paid sales tax, you must pay a state use tax. For further information about state tax liabilities when purchasing a business, contact the Colorado Department of Revenue, (303) 238-SERV (7378). Many cities and counties also collect a use tax. All county use taxes and most city use taxes are collected by the state. "Home Rule" cities may collect use taxes directly. There may be additional liabilities for personal property taxes imposed by the county. Contact the local city clerk, the county assessor and/or the county treasurer's offices for more information regarding local use and personal property taxes. Except when purchasing the stock of an existing corporation and continuing the operations of that corporation, you must establish all new tax accounts when buying an existing business. The previous owner's sales tax licenses, state wage withholding and unemployment insurance accounts and federal employer identification numbers do NOT transfer to you, the new owner.

ASK THE RIGHT QUESTIONS

Obtaining reliable information before you invest in the business will help you make an informed decision. The success of the franchise depends upon a number of factors. Most importantly, you should consider:

- What are the total costs of the franchise? These may include opening costs for inventory and fixtures, franchise fees, licensing fees, working capital, on-site expenses for the lease and construction and any service charges. Is it affordable? Are there any hidden costs that might not be spelled out in the franchise agreement?
- Does the business require any special skills? What types of training programs are available? At what cost? For how long?
- What type of assistance will you receive from the franchisor? At what cost? For how long? What types of ongoing fees or royalties are involved?
- If there are changes in the program or method of doing business, will you have any input into the process? Will changes be dictated by the franchisor's home office?
- Are there restrictions on renewing, transferring, selling or terminating the business? Does the franchisor have the right of first refusal when renewing your contract?
- What type of control will the franchisor exercise over the operation of your business?
- What are the costs of purchasing the necessary equipment? Are competitive rates available? What type of warranty and maintenance services are available? If the equipment becomes outdated, what must you do to update it?
- What financial investment is required of you? Does the franchisor offer credit arrangements?
- How will you finance the business? What are your current assets? What type of loans will you be eligible for?
- Can you terminate the franchise agreement? If so, at what cost?

Purchasing a Franchise

Franchising offers a unique opportunity for individuals interested in operating a business. It allows you to both own and operate a business while drawing from the resources of the parent company. This arrangement may reduce some of the risks of going into business for yourself depending upon the quality and stability of the franchiser. While fewer than five percent of all franchised businesses fail annually, success is not guaranteed. You should not rush into franchising before completing a thorough investigation. It should be noted that while a franchise is a method for going into business, it is **NOT** a form of legal structure. The franchiser – the business with the plan and structure – and the franchisee – you – are two completely separate businesses. You must each determine the appropriate form of legal structure for your own business. Refer to the Legal Structure and Registration chapter of this Guide.

Franchise Service

The franchiser often provides a range of services to assist you, the franchisee, in starting and operating the business. Types of assistance vary depending upon the company. It is important that you fully understand and have documentation in writing regarding which services your franchiser will and will not provide. Types of services available may include:

- Use of the company trademark, trade name, service mark or any other company identification
- Site selection for your business
- Training programs
- Marketing and advertising ideas
- Equipment and inventory purchasing assistance
- Capital/financial assistance

Selecting A Franchise

Once you have decided that you are able to meet the requirements for purchasing a franchise, you may want to shop around for the best investment. There are various publications and franchise directories available from bookstores and public libraries. Many times the classified sections of your local newspaper or magazine have listings of franchise offers. Franchise fairs and conventions are another method for learning about different franchise opportunities.

Exercise Caution

Before you agree to invest in a company that promises you large financial returns, you should exercise some caution. Colorado lacks specific laws to protect you should you need recourse. There are, however, general provisions governing "good business practices." These protections against deceptive and unfair trade practices are stated in the Colorado Consumer Protection Act and the Uniform Consumer Credit Code. The federal government also offers protection from problems encountered by nondisclosure and misrepresentation. The Federal Trade Commission's Franchise Rule requires franchisers to provide prospective buyers with a detailed disclosure statement regarding the company's history, background and operations. This document should also describe the costs and responsibilities of both the franchiser and the franchisee and must be made available to you at least ten days before any agreements are signed, or at the first face-to-face meeting, whichever comes first.

Before You Buy

- **Always** ask for a disclosure statement. The Federal Trade Commission, 1 (877) FTC-HELP (382-4357), has information for franchisers and franchisees on federal disclosure requirements.
- Compare similar franchise benefits and costs.
- Contact current franchisees for additional information and compare their business experiences with the information provided to you by the franchisor. The franchiser should make the names of her/his other franchisees available to you.
- Investigate the franchiser's earnings claim. Is it legitimate?
- Obtain a **WRITTEN CONTRACT** specifying the exact terms of the franchise agreement and any promises the franchiser makes to you.
- Make sure you thoroughly understand the company's operating policies.
- Consider consulting a professional, independent (not one recommended by the franchiser) attorney, CPA or business advisor who is familiar with franchise laws to examine the terms of the franchise offer before you sign to help you secure the best deal. Your advisor should review the franchise contract itself, any property/equipment purchase agreements and any property/equipment leasing agreements.

Additional Sources of Reference

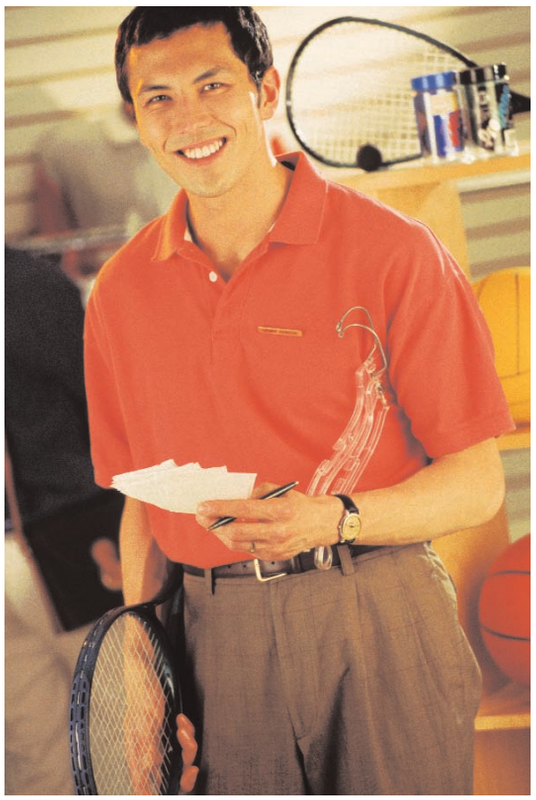
"Disclosure Requirements and Prohibitions Concerning Franchising and Business Opportunity Ventures" (The Franchise Rule) and "The Consumer Guide to Buying a Franchise" are available free from the Federal Trade Commission, by calling 1-877 FTC-HELP (382-4357).

LEGAL STRUCTURE & REGISTRATION

When you start your business, you must decide what legal structure it will have. There are several choices of business fomats in Colorado including sole proprietorship, general partnership, limited partnership, corporation, limited liability company, registered limited liability partnership, registered limited liability limited partnership and limited partnership association.

There are several issues that you should consider when determining the legal structure of your business. First, to what extent will you be personally at financial and legal risk? Second, who will have the controlling interest in the business? Third, how will the business be financed? There are advantages and disadvantages to each legal structure. As a new business entrepreneur, you should examine all the characteristics and determine which is best suited to your needs.

As you decide upon your legal structure, you should carefully evaluate both your present and future needs for operating your business. To avoid duplication of legal expenses, licensing and paperwork, analyze your various options and choose the business structure that will meet your long-term needs rather than choosing a business structure solely for its short-term convenience. While it is not a requirement, it may be valuable to consult an attorney. See the chapter on Choosing Advisors for suggestions on how to select an attorney and other professional advisors.



Sole Proprietorship

A Sole Proprietorship is a business owned and operated by a single individual. There are few legal requirements to be met to establish a sole proprietorship. If an individual is operating the business under a name other than his/her own full first and last legal names, the business name must be registered as a trade name with the Colorado Department of Revenue. It is the most common form of legal structure for new small businesses.

Advantages – It is the least complicated form of legal structure. All profits and losses of the business are reported directly on the owner's personal income tax return. All decision making and control remains in the hands of the single owner. As a result, the owner is able to respond quickly to business challenges and opportunities.

Disadvantages – The primary disadvantage of a sole proprietorship is that the proprietor is personally responsible for all the business liabilities and debts. If the business is unable to meet its financial obligations, creditors may pursue the personal assets of the owner. The sole proprietor is generally limited to financing the business by using his/her own assets and/or borrowing money. Borrowing money will require periodic loan payments regardless of whether the business is making money. Therefore, the fact that the owner's personal assets are at risk is an important factor. If you and your spouse run your business together and share in the profits, your business may be considered a partnership. You should record your respective shares of partnership income or loss separately for self-employment taxes. Doing this may or may not increase your total tax. It will ensure that each spouse receives credit for social security earnings on which retirement benefits are based. IRS Publication #541, "Partnerships," is a useful guide regarding partnership filing requirements and the allocation of income to the partners. Married couples are encouraged to consult a competent tax professional to determine the exact tax implications of their business.

The Colorado Department of Revenue will require that a husband and wife register the trade name as a general partnership if both are listed as owners of the business.

NOTE: The transfer of a business between spouses is considered a change in ownership and is treated in the same manner as the transfer or sale of a business between two unrelated individuals.

General Partnership

A General Partnership is a business owned by two or more individuals or other business entities. Although it is not required, it is strongly recommended that a general partnership prepare a written partnership agreement that outlines the business' structure and each partner's responsibilities. If the partnership owns real property, the partnership agreement should be filed in the county where the property is

located with the office that keeps real estate records. Otherwise, there is no requirement to file the agreement with any state or federal agency. If the partners are operating the business under a name other than their own legal names, the business name must be registered as a trade name with the Colorado Department of Revenue.

Advantages – Partnerships have few legal requirements for formation. Partnerships are able to pool the financial, professional and managerial talents and resources of two or more individuals. A partnership is financed through the capital contributions of the partners and by borrowing money. The profits and losses of the business are reported annually on federal and state partnership returns. However, there are no partnership taxes. The partners are individually responsible for the taxes on their personal income tax returns. Profits and losses may be divided among the partners in whatever manner determined by the partners.

Disadvantages – The partners in a general partnership are personally liable for all business debts. Even if the partnership agreement specifies a defined split in profits, each partner is 100 percent responsible for all liabilities and debts. The personal assets of any one or all of the partners may be attached to cover the partnership's liabilities, regardless of which partner incurred the liability or debt.

Limited Partnership

A Limited Partnership is a business owned by two or more individuals or other business entities in which at least one of the partners has limited liability protection. There must be at least one general partner who remains personally responsible for all the partnership's liabilities. Limited partnerships are created by filing a "Certificate of Limited Partnership"with the Secretary of State.

Advantages – A limited partner's risk is limited to his/her financial - cash or property - investment in the business. The general partner(s) can retain personal control of the business while increasing the financial resources available to the businesses without incurring long-term debt. A limited partnership may raise capital by selling additional limited partnership interests in the business.

Disadvantages – The general partner(s) remain(s) personally responsible for all the liabilities and debts of the business. The limited partner(s) may not work in the business or participate in management without risking loss of limited liability status.

CORPORATE FINANCING

A corporation may raise capital to begin the business by two different means: equity financing and borrowing money. Equity financing involves the issuance of shares of stock, which represent ownership in the business. Stock may be issued in exchange for cash, property, labor or services rendered. The primary advantage of equity financing is that the corporation is not required to repay the principal or interest. Instead, the shareholder acquires an interest in the business and may share in its future profits.

When issuing stock, a corporation should be aware that there are various types or classes of stock. Different classes of stock grant the shareholder different rights when profits are distributed.

A corporation may also acquire capital by borrowing money. Debt financing is attractive to the investor because the corporation is legally obligated to repay the principal and interest. Interest payments are deductible to the corporation. However, debt financing may be difficult or impossible for a new corporation which has little or no current earnings. A loan may require the personal guarantee of the corporate officer(s) who may then be held personally responsible for the repayment of the loan. A shareholder who is a working officer in the corporation is considered to be an employee and must be paid a "reasonable wage" subject to state and federal payroll taxes. If dividends are paid in lieu of wages, the entire dividend is subject to payroll taxes.

Corporation

A Corporation is a legal entity that exists separately from the people who create it. A corporation is owned by its shareholders and run by a board of directors elected by the shareholders. In a large corporation, the directors hire corporate officers to manage the day-to-day operations of the business. In a small corporation, the directors and the corporate officers are usually the same individual(s). Corporations are created by filing "Articles of Incorporation" with the Secretary of State and by adopting bylaws. There are certain formalities a corporation must adhere to, including:

- Procedures for annual shareholder meetings
- The election of the board of directors
- Maintenance of corporate records
- Adoption of bylaws
- Complete separation of personal and business finances, and
- Proper filings with the Secretary of State. Although many of the requirements may seem unnecessary for a small corporation, they are important to preserve the corporate form.

Advantages – A corporation is a legal entity separate from the owners. It is like a person with a life of its own. This creates a wall of separation which normally limits a stockholder's liability to the amount of investment in the corporation. If an owner dies or wishes to sell his/her interest, the corporation continues to exist and do business. This adds stability to its existence. Once a corporation has been established through the Secretary of State, no other business may register with the Secretary of State using the same name.

Disadvantages – While a corporation limits an owner's liability, the owner(s) and/or the corporate officers may still be held responsible if the "corporate veil" has been pierced. The "corporate veil" can be pierced in a number of ways, primarily by the personal actions or guarantee of an owner. Corporate profits may be subject to double taxation. A corporation must pay tax on income as a separate legal entity. If profits

ARTICLES OF INCORPORATION

An attorney is not required to file Articles of Incorporation. However, if you decide not to use an attorney, you should educate yourself thoroughly regarding all aspects of a corporation. The following are basic definitions related to filing Articles of Incorporation and should not be considered comprehensive legal advice. For example, common stock and preferred stock are the two classes of stock that a corporation may issue. In addition, stock may have other attributes and combinations of attributes which define a stockholder's rights. Articles of Incorporation may include additional information regarding the management, structure, purpose and goals of the corporation which are not outlined here.

Corporation Name is the name you wish to call your corporation. The name must include the word corporation, company, incorporated or limited or an abbreviation of one of these words. The name may not be the same as any existing corporation. You may inquire regarding name availability in person or by mail at the Secretary of State, 1560 Broadway, Suite 200, Denver CO 80202. A $50 payment should be included with mailed requests. You can also perform a name search at www.sos.state.cu.us.

Cumulative Voting is the ability of a shareholder to vote the number of shares owned multiplied by the number of directors to be voted on. For example, if shareholder "A" owns 100 shares and three directors are being elected, shareholder "A" has 300 votes to cast for any one director or he can split up the votes and cast any desired number for any one or more of the candidates.

Duration, the life of a corporation, is perpetual unless otherwise stated in the Articles of Incorporation. This means that a corporation will exist for an indefinite period of time, potentially forever, unless a specific number of years is stated. Most corporations are perpetual in duration.

Preemptive Rights entitle each shareholder the right to maintain the same proportion of ownership if additional stock is issued. If a stockholder owns 25 percent of current outstanding stock, she/he would have the option to purchase 25 percent of new issues before the stock is offered to anyone else.

Common Stock normally has the following characteristics:

- The right to vote for the board of directors
- The right to receive dividends when declared by the board of directors
- The right to share in the distribution of assets, after creditors and preferred stock, if the corporation is liquidated

Preferred Stock is normally associated with the following characteristics:

- Very limited voting rights
- Preference over common stockholders for receiving dividends
- A preference over common stockholders, after creditors, in the distribution of assets if the corporation is liquidated
- The stock may be repurchased by the corporation at the option of the corporation.

Authorized Shares are the total number of shares that the corporation has the authority to issue. If there is more than one class, record the number of shares in each class. The number of authorized shares may only be changed at a later date by a vote of the stockholders as provided in the bylaws.

Par Value stock must have a stated value in the Articles of Incorporation. The stock cannot be issued unless par value is paid to the corporation.

No Par Value (NPV) stock is issued at a value determined by the board of directors at the time of issue. Generally, the value is determined by whatever price the market will bear when the stock is issued.

A Registered Agent may be an individual or another corporation who represents the corporation. Although a post office box may be included, the registered agent must have a physical address on record at all times with the Secretary of State. The address may or may not be the corporation's place of business.

A Board of Directors must have one or more members and the number or method of determining the number must be specified in the bylaws. Directors must be at least 18 years of age.

Incorporators are the individuals who perform the initial steps of incorporation. They may or may not be involved in the corporation's activities after the formation of the corporation. Incorporators must be at least 18 years of age.

Bylaws are the rules by which a corporation is managed and regulated. The bylaws are adopted and amended by the board of directors.

are distributed to shareholders, they are also subject to taxation as part of the individual shareholder's income.

S Corporation

An S Corporation is not a separate form of legal structure, but rather a special tax status granted by federal tax law to a corporation to tax the business' income like a partnership or a sole proprietorship. A corporation elects S Corporation status by filing with the IRS on Form 2553, "Election by a Small Business Corporation." Generally, the election must be filed within 75 days of incorporating. Otherwise, a corporation may not change its status until the beginning of each new calendar year. Form 2553 must to be filed by March 15th to be effective for the new tax year. Once elected, S Corporation status will continue until the

shareholders revoke the choice or a corporation no longer meets the qualifications.

Advantages – An S Corporation has all the general advantages of "regular" corporations except it does not pay corporate income taxes. It divides the expenses and income among its shareholders. Individual shareholders report profits and losses on their personal income tax returns.

Disadvantages – To apply for S Corporation status the business must comply with the following restrictions:

- It must be a domestic corporation. It cannot be a financial institution using the reserve method of accounting for bad debts, an insurance company, a corporation that takes tax credits for doing business in a U.S. possession, or be a domestic international sales corporation (DISC).
- It may only have one class of stock issued and outstanding.
- It may not have accumulated earnings and profits at the close of each three consecutive taxable years if 25 percent of its gross receipts for each of the years are passive investment income. Passive investment income includes royalties, rents, dividends, interest, annuities, and sales or exchanges of stocks or securities.
- It may have a maximum of 75 shareholders. It may not have as a shareholder any person who is not an individual except certain qualifying trusts or certain qualifying exempt organizations. Shareholders must be U.S. citizens or resident aliens.
- It must have a tax year ending December 31.
- All shareholders must agree to elect S Corporation status.

While an S Corporation is not subject to double taxation as a regular corporation, it loses the ability to deduct the full cost of medical insurance as a business expense under current tax law. Corporate officers are still treated as employees. There are also differences in how business losses are carried forward, which may be positive or negative depending upon the individual situation. A competent tax advisor should be consulted before applying for S Corporation tax status. It is important to note that the corporation must file the "Articles of Incorporation" with the Secretary of State before it can apply to the IRS for S Corporation status. For more specific information about qualifying and applying as an "S" Corporation, contact the IRS, at 600 17th Street, Denver, CO 80202-2490, 1-800-829-1040.

Limited Liability Company

The Colorado Limited Liability Company Act was adopted in 1990. An LLC combines the concepts of partnerships for tax purposes and corporations for liability purposes. LLCs are created by filing "Articles of Organization" with the Secretary of State. While similar, LLCs are NOT corporations. In an LLC, the owners are called members. The members may elect or hire a manager(s) to run the business. As in a corporation, the owner(s)/member(s) may elect themselves to be the manager(s).

Advantages – Members of an LLC are protected from personal liability in the same way as corporation shareholders, while the entity itself can have the flexibility of a partnership. The IRS has determined that LLCs may elect to be treated as partnerships or corporations for income tax purposes. A Colorado LLC will be treated as a partnership if there are two or more owners, unless the LLC elects to be taxed as a corporation. However, state law allows the formation of an LLC by a single individual. In that case the IRS will treat the LLC as a sole proprietorship. Because LLCs are a new form of legal structure and various questions remain unanswered, it is recommended that you consult a knowledgeable attorney if considering the formation of an LLC.

Disadvantages – LLCs are a recognized legal structure in all states. However, tax and liability treatment of an LLC is not uniform across state lines. There may also be limitations on the transferability of ownership in certain situations. In that case the IRS may treat the LLC as a sole proprietorship or partnership.

Limited Liability Partnerships & Limited Liability Limited Partnerships

The Limited Liability Limited Partnership Act became law July 1, 1995. The intent of the law is to create a form of legal structure which is similar to S Corporations and Limited Liability Companies. Registered Limited Liability Partnerships (LLP) and Registered Limited Liability Limited Partnerships (LLLP) limit a partner's personal liability in the business to their personal investment in the business, except in areas related to their personal professional conduct. LLPs and LLLPs will usually be taxed as partnerships but may elect to be taxed as corporations. Both entities are created by filing a "Registration Statement" with the Colorado Secretary of State. The

partners in LLPs and LLLPs are directly considered the operators of the business. There is usually no election of officers or managers as in corporations or LLCs.

Advantages – New businesses and existing general partnerships (currently registered with the Colorado Department of Revenue) may register as a Registered Limited Liability Partnership. Existing limited partnerships (currently registered with the Colorado Secretary of State) may register as a Registered Limited Liability Limited Partnership and gain liability protection for all partners without a complete reorganization of the business. The liability protection is similar to the protection provided to the owners of a corporation. Once an LLP or LLLP has been registered with the Colorado Secretary of State, no other business may register with the Colorado Secretary of State using the same name. The intent of the law is to gain the benefits of the partnership form of business while limiting the personal liability of the owners.

Disadvantages – LLPs are primarily for businesses where all the owners belong to a single licensed profession, e.g. CPAs, attorneys, doctors, etc. It is a new form of legal structure and it is not a recognized form of legal structure in all states. Anyone considering the formation of a LLP or a LLLP should consult a knowledgeable attorney.

BUSINESS REGISTRATION

	Colorado Department of Revenue	Secretary of State	Internal Revenue Service
Sole Proprietorship	●		
General Partnership	●		●
Limited Partnership		●	●
Corporation		●	●
Limited Liability Company		●	●
Limited Liability Partnership		●	●
Limited Partnership Association		●	●
Nonprofit Organization		●	●

This table describes business registration requirements only. If you make product, sales or have employees refer to the Sales Tax and Employer Responsibilities chapters of this Guide.

Limited Partnership Associations

The Colorado Limited Partnership Association Act created the new form of legal structure called the Limited Partnership Association (LPA) and became law on July 1, 1995. This new entity is created by filing "Articles of Association" with the Colorado Secretary of State.

Advantages – The main difference between a limited partnership association and a partnership or limited liability partnership is that the association has an indefinite life. Its existence terminates upon the affirmative vote of all of its members or as otherwise provided in the bylaws and by filing articles of dissolution with the Colorado Secretary of State. The association's existence does not terminate upon the disassociation, death or bankruptcy of a partner. Under the Act, LLCs may convert to LPAs in the same fashion that they could convert to partnerships or limited partnerships under the Limited Liability Company Act.

Disadvantages – LPAs must have two or more persons as members of the business. This structure is very new and at this time there are few interpretive guidelines.

Nonprofit Organizations

Nonprofit is a term that refers to an organization which uses all profits to further organizational goals instead of distributing the profits to shareholders, organizers or owners. (NOTE: Distribution of wages includes the payment of wages.) In Colorado, an organization may choose to be an Unincorporated Nonprofit Association or a Nonprofit Corporation.

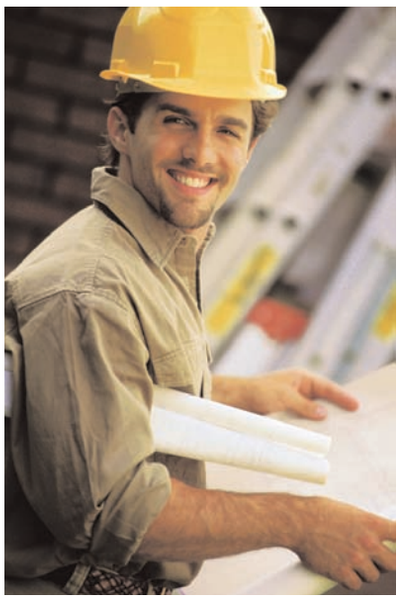
Association vs. Corporation

Nonprofit associations are normally formed by clubs or other less formal groups that do not intend to seek any special tax-exempt status or to exist beyond the current members. If organized as an unincorporated nonprofit association, a constitution, articles of association or a written declaration of organization must be adopted by two or more persons, and the name must be registered with the Colorado Department of Revenue. A trade name may be registered using Form DR592 or Form CR0592. To further clarify an association's nonprofit status, additional optional documentation may be filed with the Secretary of State. However, organizations that want to become tax-exempt or exist beyond the current organizers should consider organizing as a Nonprofit Corporation. While not explicitly required, it will be easier to obtain tax-exempt status if organized as a corporation rather than as an association. A Nonprofit Corporation must file articles of incorporation with the Secretary of State in accordance with the Colorado Nonprofit Corporation Act. For the necessary forms to become a Nonprofit Corporation, contact the Secretary of State, 1560 Broadway, Suite 200, Denver, CO 80202, (303) 894-2200, www.sos.state.co.us

Tax-Exempt Status

After organizing, submit Form SS-4, Application for Employer Identification Number, to have the Internal Revenue Service (IRS) assign a Federal Employer

Identification Number (FEIN) whether there are any employees or not. The FEIN is the basic federal tax ID number for the organization. Tax-exempt status requires an additional set of forms and paperwork. Tax-exempt status is granted by the Internal Revenue Service (IRS) to nonprofit organizations to determine their status for paying federal income taxes. Forming a nonprofit association or even a non-profit corporation does NOT automatically establish tax-exempt status. In addition, there are three types of tax-exempt benefits, and one does not automatically grant the other. The first step to becoming tax exempt is determining federal tax-exempt status. There are a number of ways under Internal Revenue Code 501(c) by which an organization may qualify for federal tax-exempt status. Generally, only organizations that have received federal tax-exempt status under 501(c)(3) qualify



for Colorado sales tax-exempt status. 501(c)(3) status is issued only to religious, charitable, literary or educational organizations, organizations that promote national or international amateur sports competition and organizations for the prevention of cruelty to children or animals. Contributions made to 501(c)(3) organizations are tax deductible to the donor. Other organizations may become tax-exempt under other subsections of 501(c). Publication #557, "Tax-Exempt Status for Your Organization," is a useful IRS publication in determining an organization's tax-exempt status. Organizations that wish to become tax exempt under 501(c)3 must file IRS Package #1023, Application for Recognition of Exemption. Organizations that wish to qualify for all other types of 501(c) nonprofit status should refer to Publication #557 for filing requirements. It may take six months or longer for the IRS to process an application and issue a Letter of Determination establishing federal nonprofit, tax-exempt status. Contact the IRS
1) at 600 17th Street, Denver, CO 80202,
2) Call 1 (800) 829-1040 or
3) Visit their website at www.irs.gov

After a 501(c)(3) Letter of Determination is received from the IRS, apply to the Colorado Department of Revenue for a sales tax-exemption. A copy of the Letter of Determination, financial statements and documents confirming your organizational structure and function must accompany application Form DR 715. If the Colorado Department of Revenue determines the organization qualifies for Colorado tax-exempt status, a Certification of Exemption authorizing purchases for the organization without state or local sales taxes will be granted. A Letter of Determination from the IRS does not guarantee Colorado tax-exempt status. For additional information, contact the Colorado Department of Revenue, Taxpayer Services Division at (303) 238-3278.

Some religious, charitable and educational nonprofit tax-exempt organizations may qualify for property-tax exemption. An organization must own real property to take advantage of this exemption. Federal tax-exempt status is not used to determine whether an organization qualifies for the property-tax exemption. Organizations that would like more information should contact the Colorado Department of Local Affairs, Division of Property Taxation at 1313 Sherman, Room 419, Denver, CO 80203, (303) 866-2371.

Although nonprofit tax-exempt organizations may not pay income tax, they must still file tax returns. IRS Form 990 is used for federal income tax returns and DR 1120 for state returns. While there are a few exceptions, tax-exempt organizations are still responsible for all payroll taxes and all other employer responsibilities on employees and must collect appropriate sales tax when selling personal tangible products to the public. See the Employer Responsibilities and Sale Tax chapters of this Guide.

Private Assistance for Nonprofits

The Colorado Association of Nonprofit Organizations (CANPO) is a statewide "trade association" for non-profits in Colorado. CANPO is a diverse group of more than 900 nonprofit members. It provides information programs, publications and group purchasing services. CANPO helps charitable and philanthropic nonprofits manage their organizations and resources. It represents the nonprofit sector and serves as a bridge between the public and private sectors. The CANPO bookstore sells a number of useful publica-

HOW TO DO A NAME SEARCH

To search for all businesses registered in Colorado, it is necessary to do a search with both the Department of Revenue and the Secretary of State. The Colorado Department of Revenue has an online service where you can check to see if a trade name for sole proprietors and general partnerships is already registered. Visit the Colorado Department of Revenue's website at the www.businesstax.state.co.us for "Trade Name Search." Or call the Colorado Department of Revenue at (303) 238-FAST (3278). The Secretary of State will provide information on trade names registered by corporations, limited partnerships, limited liability companies, limited liability partnerships or trademarks filed in the State of Colorado. All forms can be completed online. www.sos.state.co.us

WHERE TO REGISTER

Colorado Department of Revenue

If you are a sole proprietor or general partnership and will be doing business under a name other than your own legal name(s), you must register your trade name(s) with the Colorado Department of Revenue. Registration of the trade name does not grant exclusive rights to the use of the trade name. Sole proprietors and general partnerships gain exclusive rights to their name through the use of the name over a period of time or by filing a trademark in addition to registering with the Colorado Department of Revenue. If you want to find out if a name is already being used, call the Colorado Department of Revenue's Tax Information line at (303) 238- 3278 or visit their website at www.businesstax.state.co.us.

There are two forms which you may use to register a trade name. If your business will not sell tangible products or have employees, you may use Form DR0592, "Trade Name Registration." Form DR0592 may also be used to register any additional trade names. If you will have sales and/or employees, you should use Form CR0100, "Colorado Business Registration." The CR0100 will register your trade name as well as open your sales tax license, state wage withholding and unemployment insurance accounts. If the appropriate form was not included with this Guide it can be obtained from the Colorado Department of Revenue at (303) 238-3278, or from the SBDC Hotline at (303) 592-5920. Completed forms may be sent by mail to the Colorado Department of Revenue, 1375 Sherman Street, Denver, CO 80261 or delivered in person at one of the local service centers:

- Colorado Springs
  4432 Austin Bluffs Pkwy. #188
- Denver
  1375 Sherman St. Room 160
- Fort Collins
  1121 W. Prospect Road, Bldg D
- Grand Junction
  222 S. Sixth St., Room 208
- Pueblo
  310 E. Abriendo Ave., Suite A4

Forms are also available through the Colorado Department of Revenue website located at www.taxcolorado.com or call (303) 238-3278. **NOTE**: Via mail, you will receive confirmation of your accounts in approximately 3-4 weeks. Local service centers will establish accounts while you wait.

Secretary of State

If your business will be a Limited Partnership, Limited Liability Company, Corporation, Registered Limited Liability Partnership, Registered Limited Liability Limited Partnership or a Limited Partnership Association, you must file with the Secretary of State, 1560 Broadway, Suite 200, Denver, CO 80202, (303) 894-2200. You can do this at www.sos.state.co.us.These forms of legal structure do not register trade names with the Department of Revenue. If you do business under an additional name, you must file a "Statement of Trade Name" with the Secretary of State. Corporations, limited partnerships, limited liability companies and limited liability partnerships organized outside Colorado must file for authority to do business in Colorado. The Secretary of State will not accept paperwork from a business if another business is already using the same name. Therefore, you are encouraged to do a name search prior to filing your paperwork.

Internal Revenue Service

All forms of legal structure, except sole proprietors with no employees, must obtain a Federal Employer Identification Number (FEIN). The FEIN is your federal tax ID number. You can obtain your FEIN by:

a) filing a completed Form SS-4 with the IRS EIN Operation unit for your state Philadelphia, PA 19255 & you'll receive your FEIN within four weeks;

b) calling Tele-tin, (800) 829-4933 Monday through Friday 8am- 10pm (for your time zone) and you'll receive your FEIN immediately; or

c) faxing your SS-4 to FAX-TIN number (215)516-3990. FAX-TIN is available 24 hours a Day 7 days a week. Be sure to include a cover sheet showing your FAX number and you should receive your FEIN within four business days. The form can be obtained from the IRS, 1-800-829-3676 or through their website www.irs.gov under forms. Sole proprietorships with no employees may use its social security number as a federal tax ID number or file Form SS-4 to receive a FEIN. The SS-4 and many other federal tax forms may be obtained from the IRS website located at www.irs.gov

tions including *"How to Form Your Own Nonprofit Corporation"* and *"Fiscal Sponsorship: 6 Ways to Do It Right."* For more information, contact CANPO at 225 East 16th Avenue, #1060, Denver, CO 80203, (303) 832- 5710, 1-800-333-6554. Community Resource Center (CRC) helps take start-up groups through the process of forming a nonprofit. CRC provides direct training, consultation and empowerment services to nonprofits, including leadership training for directors. CRC also publishes the "Colorado Grants Guide" and the "Colorado Funding Report." For more information contact CRC at 655 Broadway, #300, Denver, CO 80203-0426, (303) 623- 1540 or contact the website at www.crcamerica.org/ or email info@crcamerica.org

Cooperatives

A cooperative is a legal organization that is formed by a group of individuals and/or businesses that desire to work together for their "cooperative" benefit. A cooperative has two unique characteristics. A cooperative allows a group of separate individuals or individual businesses to join together for a common purpose such as the bulk purchase of materials, for sharing office space or to sell common products. While a cooperative has to cover its costs to stay in business, it can focus its resources on meeting the needs of its user-owners, called members. Business decisions are made on the basis of what is in the overall best interests of the members. Each member maintains his/her status as an individual or individual business and the cooperative becomes a means to realize common business and personal goals.

NOTE: A cooperative is not a form of legal structure used to operate a single independent business. In a cooperative, each member generally has only one vote regardless of the amount of equity owned. This one-member, one-vote approach makes cooperatives very democratic. This can be viewed as an advantage or a disadvantage. Wealthy members can't buy control and all members have equal say in how the business is conducted. However, it does not take into account the amount of financial and/or time commitments made to the organization. In a non-cooperative business, people usually have voting power that is based solely on their equity investment. A cooperative may organize as an unincorporated association. This is the least formal method for organizing a cooperative. The only government requirement is the registration of a trade name with the Colorado Department of Revenue. However, you must also adopt and have available for members a constitution, articles of association or a written declaration of organization.

Most groups, however, organize as a corporation. Organizing as a corporation has three advantages.

- The personal liability of each member for losses suffered by the cooperative is limited to the member's equity in the cooperative.
- The cooperative exists independently of the original organizers. Transfer of ownership and control is simple. New members purchase a membership or a share of voting stock. When a person is no longer eligible to be a member, the cooperative repurchases that person's membership interest.
- Organizing as a corporation conveys the image of a solid, long-lasting venture to members and outsiders.

Out-of-State Businesses

Any out of state business that will have ongoing business in the State of Colorado must register with the Colorado Department of Revenue or the Secretary of State based upon its legal structure. Doing business in Colorado is NOT defined by statute but commonly refers to any business with a physical location in Colorado and/or operation that will extend beyond 30 days.

NOTE: All wages and income earned from work and operations conducted in the State of Colorado are subject to Colorado income tax regardless of the residency of the individual or the business. Employers must withhold Colorado income tax from employee wages and make the required estimated income tax payments for the business. Refer to the Employer Responsibilities and the Income and Property Tax chapters of this Guide for more information on filing requirements.

LEGAL STRUCTURE SUMMARY

When starting your own business, you must carefully choose the appropriate legal structure for your business. You should examine the characteristics of each structure along with the needs and desires you have for your business.

1) Sole Proprietor — This is a single individual who owns and operates the business. There is no legal separation between the individual and the business. She/he benefits from 100 percent of the profits and is personally responsible for 100 percent of all the debts and liabilities of the business. If you and your spouse run your business together you have the option of registering your business as a sole proprietor or a general partnership. Colorado law allows a husband and wife to register as a sole proprietor when they register their ownership under one legal name only with the Colorado Department of Revenue. The law allows the second spouse full responsibility for the business.

2) Married Couples — Couples are encouraged to consult a competent tax professional to determine the exact tax implications for themselves and their business. You and your spouse may run your business together and share in the profits. Be aware, though, that your business may be considered a partnership. The Colorado Department of Revenue registers the trade name as a general partnership if both are listed as owners of the business.

3) General Partnership — This is very similar to a sole proprietorship except that there are two or more individuals or entities who own the business. A general partnership offers the means for pooling all resources and sharing control of a business. There is relatively little formality required to establish and run the business, and control remains with the partners. However, all partners remain 100 percent responsible for all the debts and liabilities of the business, regardless of any partnership agreement outlining work responsibilities and shares of profit.

4) Limited Partnership — This provides the ability to acquire additional capital while avoiding the need to borrow as the general partner(s) maintain(s) control of the day-to-day operations of your business. The general partner(s) is/are 100 percent responsible for all the debts and liabilities of the business. The limited partner's liability does not exceed his/her investment in the business. However, the limited partner may not be involved in the operations or management of the business.

5) Corporation — This is a legal entity separate from the owners of the business. There are significant formalities that must be observed to properly operate a corporation. The corporation provides a wall of liability protection between the business and the owners. It has the ability to raise capital by issuing stock. While the limited liability enjoyed by shareholders may appear attractive, most creditors will probably require a personal guarantee as collateral. The corporation must pay its own taxes in addition to the owners, and owners who work in the business are considered employees. A corporation may become an "S" Corporation through application to the IRS. This will eliminate the double taxation of a corporation, but may result in the loss of some tax deductions and reduce flexibility on the handling of business losses. It does NOT eliminate employer responsibilities for corporate officers.

6) "S" Corporation — This is not a separate form of legal structure, but rather a special tax status granted by the IRS to a corporation to tax the business' income like a partnership or a sole proprietorship. A corporation elects "S" Corporation status by filing with the IRS on Form 2553, "Election by a Small Business Corporation."

7) Limited Liability Company — This combines the benefits of liability protection in a corporation with a more simplified tax structure like a partnership. It is similar to an S Corporation without the IRS restrictions. However, limited liability companies are a relatively new form of business structure.

8) Limited Liability Partnerships and Limited Liability Limited Partnerships — These are new forms of legal structure in Colorado since July 1, 1995. They are similar to limited liability companies with principal benefits to all owners who are members of a single licensed profession. Anyone considering the formation of a limited liability partnership or a limited liability limited partnership is strongly encouraged to use an attorney.

9) Limited Partnership Association — This is a new form of legal structure in Colorado effective July 1, 1995. This structure is different from a partnership or limited liability partnership in that the association has an indefinite life. Its existence does not terminate upon the disassociation, death or bankruptcy of any of its partners. For more information about this structure it is strongly recommended that you contact an attorney for specific liability protection.

10) Nonprofit — This is a term that refers to an organization which uses all profits to further organizational goals instead of distributing the profits to shareholders, organizers or owners. In Colorado, an organization may choose to be an unincorporated nonprofit association or a nonprofit corporation. Establishing tax-exempt status is a second process that is completed by filing either Package #1024, "Application for Recognition of Exemption Under Section 501(a)" or #1023, "Application for Recognition of Exemption," with the IRS.

11) Cooperative — This is a legal organization that is formed by a group of individuals and/or businesses that desire to work together for their "cooperative" benefit. It allows a group of separate individual businesses to join together for a common purpose such as the bulk purchase of materials, for sharing office space or to sell common products. As you decide upon your legal structure, you should carefully evaluate both your present and future needs for operating your business. To avoid duplication of legal expenses, licensing and paperwork, analyze your various options and choose the business structure that will meet your long term needs rather than choosing a business structure solely for its short-term convenience. While it is not a requirement, it may be valuable to consult an attorney. See the chapter on Choosing Advisors for suggestions on how to select an accountant, attorney and other professional advisors.

INCOME AND PROPERTY TAX

This section outlines the general income tax laws that you will encounter when you own your own business. For more specific information you should contact the Internal Revenue Service, 1-800-829-1040 or www.irs.gov and the Colorado Department of Revenue, (303) 238-FAST or (303) 238-SERV.

Corporations

If your business is a corporation located or "doing business" in Colorado, it is subject to state and federal corporate income taxes. In general, a corporation will be considered to be "doing business" when it has employees or business property in Colorado. If you will be filing as an S Corporation, your business income will be taxed as a partnership and will be exempt from corporate income taxes, although a corporate income tax return must still be filed. Working corporate officers are still treated as employees, even in an S Corporation, and must be paid a reasonable wage which is subject to all payroll taxes. At the end of your corporation's fiscal year, you must figure its net taxable income or net loss. To do this, you subtract the operating expenses and "allowable deductions" from the gross income. The laws governing federal tax rates, allowable deductions and losses change frequently. Annually, you should obtain from the IRS a summary of the current applicable federal tax laws. IRS Publication #542, "Corporations," is a useful guide in determining your federal tax liability.

Every corporation, including S Corporations, "doing business" in Colorado or deriving income from Colorado sources must file a corporate income tax return with Colorado. Colorado taxable income is determined by adding and/or subtracting various adjustments to your federal taxable income. If your corporation is "doing business" in Colorado as well as other states, you must apportion to Colorado the share of your income derived from sources within Colorado. There are two methods that may be used to determine state corporate income tax. Contact the Colorado Department of Revenue for more information at (303) 238-FAST (3278) or (303) 238-SERV (7378). If you expect your federal tax liability to be $500 or more and/or your state tax liability to be $5,000 or more, you are now required to file and pay estimated taxes during the year. Use Form 1120W, "Estimated Tax for Corporations," to figure federal estimated taxes due. The state form for making estimated tax returns is the 0112 ES. Report your federal corporate income annually on Form 1120, "U.S. Corporation Income Tax Return," or Form 1120S," U.S. Income Tax Return for an S Corporation." At the end of the year you will file your corporate state tax on Form 0112. A corporation that owes more than $500 (and no estimated tax payments equal to the smaller of current year's or prior year's taxes) in federal income tax or $5,000 in state income tax may be subject to penalties and interest. If you receive dividends from your corporation you must report them as income on your personal income tax return and pay the appropriate income taxes.

Partnerships & Limited Liability Companies

If your business is a general partnership, limited partnership, limited liability company, limited liability partnership, limited liability limited partnership or a limited partnership association, you must file state and federal partnership income tax returns. The partnership business is not required to pay income tax. The state and federal partnership income tax returns are used to report your business' income and expenses, changes in your balance sheet and how the partners share profits and losses. First, complete your federal return of income, Form 1065, "U.S. Return of Partnership Income" or Form 1120S, "U.S. Income Tax Return for an S Corporation." You will need this information to complete your Colorado return, Form 0106. Each partner in the partnership is then responsible for his/her own income and self-employment taxes as an individual. If you expect to owe the IRS more than $1000 in individual federal taxes, you must make federal estimated tax payments using Form 1040-ES (Estimated Taxes for Individuals). If you expect to owe Colorado more than $1,000 in individual state taxes, you must pay state estimated tax payments. Estimated payments are made using the Colorado Form 0104-ES. If you and your spouse run your business together and share in the profits, your business may be considered a partnership. You should record your respective shares of partnership income or loss

IRS AND THE INTERNET

The IRS is on the Internet and you can download and print any of the 600 federal tax forms and instructions, approximately 90 tax publications and other tax information materials.
WWW.IRS.GOV

separately for self-employment taxes. Doing this will usually not increase your total tax, but will give each spouse credit for social security earnings on which retirement benefits are based. IRS Publication #541, "Partnerships," is a useful guide regarding partnership filing requirements and the allocation of income to the partners.

Self-Employment Taxes

If you are a sole proprietor, a partner in any form of partnership or a member in a limited liability company, you must file your own estimated self-employment taxes. When you work for others as an employee, your employer withholds your taxes from your paycheck. As an employee, your employer pays half of your social security taxes and you pay half. When you are self-employed, you must pay the entire amount. Estimated taxes are normally paid quarterly on actual income. If you do not have taxable income, you do not have to pay estimated taxes. If you expect to owe the IRS more than $1,000 in federal taxes, you must make federal estimated tax payments using Form 1040-ES. The IRS prints a number of useful publications regarding your income tax rights and responsibilities including Publication #334, "Tax Guide for Small Business," Publication #505, "Tax Withholding and Estimated Tax," Publication #533, "Self-Employment Tax" and Publication #587, "Business Use of Your Home." Contact the IRS directly at 1-800-829-1040 for these publications and any additional information on calculating your taxable income and federal tax payments. Colorado income tax is a flat 4.63% of your adjusted federal taxable income. If you expect to owe Colorado more than $1,000 in state taxes, you must pay state estimated tax payments. Estimated payments are made using the Colorado Form 104-ES.

Property Tax

Property taxes are assessed on any real and/or personal property (land, buildings, furniture, equipment, etc.), which directly or indirectly produce income within your business. The County Assessor determines the value of property using a market, cost or income approach. Property taxes are assessed on a percentage of actual value. To determine your property tax bill, multiply the assessed value by the local tax rate. The county assessor will mail a declaration schedule for property taxes after January 1. Taxes must be paid by April 15 unless an extension has been obtained. The County Treasurer is responsible for mailing and collecting the actual property tax bill. Agricultural and natural resources are treated somewhat differently. You should contact your local county assessor regarding property taxes, personal and real estate, whenever you start a new business.

When You Are an Employee...

- Your employer must withhold and submit to the IRS your federal income tax withheld and your portion of Social Security (FICA) and Medicare taxes withheld. Your employer is also responsible for paying state and federal unemployment taxes (SUTA and FUTA).
- Your employer must give you a Form W-2, Wage and Tax Statement, showing your salary and any payroll deductions (examples: Federal Income Tax, health insurance, etc.) for the year.
- You may only deduct work-related expenses when they exceed two percent of your adjusted gross income, and you itemize your deductions on Schedule A.

When You Are an Independent Contractor...

- You are responsible for setting aside and paying your own income tax and self-employment tax (effectively the employee's and the employer's share of Social Security and Medicare taxes). The businesses you work for do NOT withhold or pay taxes on your behalf.
- You are not eligible to collect unemployment insurance benefits.
- You are not covered by workers' compensation insurance benefits unless you purchase a policy from an insurance carrier.

FOR YOUR INFORMATION

Businesses with more than $200,000 of annual employment tax obligations have been required to make electronic payments since July 1, 1999. All businesses may be required to use the electronic system sometime in the future. For more information on EFTPS (Electronic Federal Tax Payment System), call the IRS at 1-800-555-4477 or 1-800- 945-8400.

- For more information on federal taxes, contact the Internal Revenue Service at 1-800-829-1040 or visit its website at www.irs.gov
- For more information on Colorado income taxes, contact the Colorado Department of Revenue at (303) 238-FAST or (303) 238-SERV.
- Property taxes are due on Real Estate and Personal Business Property.
- The Internal Revenue Service's Small Business Tax Education Program (STEP) is a cooperative program with Small Business Development Centers and other local organizations to provide business tax education to the small business owner.
- Check into the IRS Small Business Tax Education Program in your area and take the first STEP to Making Your Taxes Less Taxing! Assistance is only a phone call away at 1-800- 829-1040.

- The businesses you work for are required to give you a Form 1099 MISC if they have paid you $600 or more during the year.
- You may deduct business expenses on Schedule C of your income tax return. You may also depreciate the cost of most business assets.

NOTE: Businesses with more than $200,000 of annual employment tax obligations have been required to make electronic payments since July 1, 1999. All businesses may be required to use the electronic system sometime in the future. For more information on the system, call 1-800-555-4477 or 1-800-945-8400.

ENTERPRISE ZONES

An Enterprise Zone is defined as an economically lagging area of Colorado in which special tax incentives are offered to businesses that expand or locate in the zone. The purpose of the tax incentives is to encourage economic development in the zone. There are ten tax credits or exemptions which may be taken by businesses located within a zone, including:

1. The Investment Tax Credit for businesses located in a Colorado Enterprise Zone. A 3.0% tax credit is available for equipment used solely and exclusively in a designated enterprise zone. Request FYI Income 11 for more information.

2. New Business Facility Job Tax Credit is available for new or expanding businesses located in an enterprise zone that create new jobs. A $500 tax credit against state income taxes is available for each employee. Request FYI Income 10 for more information.

3. New Business Facility Job Tax Credit for Agricultural Processing is available for new business facility employees for businesses which add value to agricultural commodities through manufacturing or processing. Request FYI Income 10 for more information.

Businesses located in an enterprise zone in a county that has been designated as an Enhanced Rural Enterprise Zone can qualify for an additional credit of $2,000 per new job (for a total credit of $2,500 per new job), and an additional credit of $500 per new agricultural processing job (for a total credit of $3,500 per new job).

4. New Business Facility Job Tax Credit for Employer Health Insurance is also available for each new business facility employee who is insured under a qualifying employer-sponsored health insurance program. Request FYI Income 10 for more information.

5. Research and Development Tax Credit for R&D carried on in an enterprise zone. Request FYI Income 22 for more information.

6. Tax Credit for Private Contributions to Enterprise Zone Administrators may be taken by any taxpayer who makes monetary or in-kind contributions to an enterprise zone administrator for the purpose of implementing the economic development plan of the zone. Request FYI Income 23 for more information.

7. Tax Credits are available for the Rehabilitation of Vacant Commercial Buildings located in an enterprise zone. Request FYI Income 24 for more information about this credit.

8. Job Training Credit will help employers who carry out a qualified job training program for their enterprise zone employees. Businesses may claim an income tax credit of 10 percent of their eligible training costs. Request FYI Income 31 for more information about this credit.

9. State Sales and Use Tax Exemption for Manufacturing and Mining Equipment used in an enterprise zone. This exemption is for equipment used directly in the manufacturing or mining process (including gas and oil). It applies to sales and use tax and state-collected local taxes. Request FYI Sales 10 for more information on manufacturing equipment. Request FYI Sales 69 for more information on the mining equipment exemption.

10. Local Government Tax Incentives may be negotiated by any city or county within an enterprise zone with individual taxpayers who have qualifying new business facilities: (a) an incentive payment or property tax credit equal to or not more than the amount of the increase in property tax liability over pre-enterprise zone levels; and (b) a refund of local sales taxes on purchases of equipment, machinery, machine tools, or supplies used in the taxpayer's business in the enterprise zone. FYI's can be found on the Department of Revenue's website, www.revenue.state.co.us/TPS_dir/fyi_index_rev.html or by calling (303) 238-FAST or (303) 238-SERV.

LOCAL ENTERPRISE ZONES

There are currently 18 Colorado enterprise zones. An individual zone may include all of several counties in rural areas or small portions of a single county in urban areas. The exact boundaries of a zone and the certification of a qualified business within an enterprise zone are determined by the local administrators. Businesses should contact their local administrator listed below or the State Enterprise Zone Administrator, 1625 Broadway, Suite 1700, Denver, CO 80202, (303) 892- 3840 for more information. Check for updated phone numbers and links to local enterprise zone websites on the Office of Economic Development's enterprise zone website, www.colorado.gov/oed/ez.

Adams County (303) 450-5106
Arapahoe County (303) 762-2599
Denver (720) 913-1640
East Central Colorado (719) 348-5562
El Paso County (719) 520-6480
Greeley/Weld Counties (970) 356-4565
Jefferson County (303) 202-2965
Larimer County (970) 498-6605
Mesa County (970) 243-5242
Northeast Colorado (970) 867-9409
Northwest Colorado (970) 625-1723
Pueblo County (719) 583-6382
San Luis Valley (719) 589-6099
Upper Arkansas (719) 395-2602
South Central (719) 845-1133
Southeast Colorado (719) 336-3850
Southwest Colorado (970) 247-9621
West Central Colorado (970) 249-2436

COLORADO SALES TAX

If you sell, rent or lease tangible personal property in Colorado, you must obtain a sales tax license. The type of license you need and the amount of tax you are required to collect depends upon who you are selling to and where and how you are doing business. A license is also required to rent accommodations for periods of less than 30 days. General sales tax reference guide, DRP 0099, is at www.taxcolorado.com.

Sales Tax Licenses

Retail Sales Tax License

A retail sales tax license is required if you are selling, renting or leasing your product to the end user of the product. If you will be doing wholesale and retail sales you only need a retail sales tax license. Apply for the sales tax license on form CR 0100, "Business Registration." A retail sales tax license costs $16 for a two-year calendar period plus a one time $50 deposit. The deposit will be automatically refunded to you once you have collected and remitted a total of $50 in state sales tax to the Colorado Department of Revenue.

Wholesaler License

A wholesaler license is required if you are selling your product to another business that will resell your product or use it as an ingredient in another product to be resold. A wholesaler license cost $16 for a two-year period. Apply for the sales tax license on form CR 0100, "Business Registration.'" If your business is primarily wholesale, you may have up to $1,000 in retail sales per year and will not be required to obtain a retail sales tax license. If you will have more than $1,000 in retail sales per year, you should get a retail sales tax license and record your wholesale sales under your retail license.

Single Event

If you plan to attend a single event as a vendor at a location other than your regular business location, you must obtain a single event license. A single event license costs $8 for each event, unless you already have a wholesale or retail license, then there is no charge. Apply for the single event license on form DR 0589, "Special Event Application and Trade Name Registration."

Multiple Event License

If you attend more than one event during a two-year period, you should obtain a multiple event license. A multiple event license costs $16 for a two-year calendar period, unless you already have a wholesale or retail license, and then there is no charge. Apply for the multiple event license on form DR 0589, "Special Event Application and Trade Name Registration'"

Local Licenses

All county and most city sales taxes are collected by the state. However, there are 58 home-rule cities in Colorado that collect their own city sales tax. Any city or county can require a business license for business conducted within its jurisdiction.

Applications & Fees

Retail and wholesale licenses are obtained by completing the Colorado Business Registration, Form CR0100. Multiple and single event licenses are obtained by completing the Sales Tax Special Events Application, Form DR0589. All state sales tax licenses, except for single events, cost $16 per two-year calendar period. Each two year period is divided into four six month quarters. The actual cost of your initial license will be prorated depending upon the quarter in which you obtain your license.

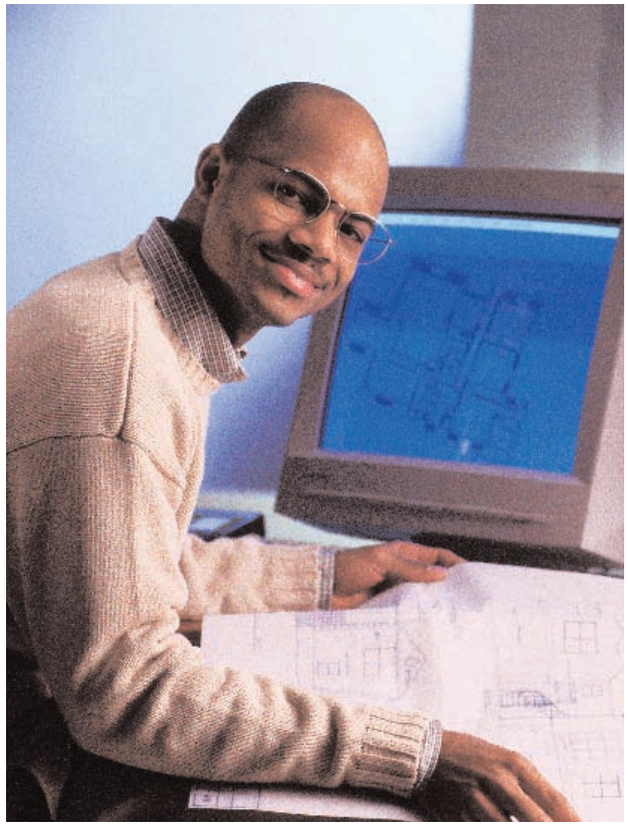
Collecting Sales Tax

Rates

If you will be selling a product to the end user, you must collect sales tax. The amount of sales tax you collect depends upon the taxing districts where your business is located, the type of business you are in and how the transaction is completed. To determine the amount of tax you must collect, you need to add together the various rates that apply to your business (DRP 1002).

State

The 2.9% state sales tax must be collected by all businesses selling tangible, personal property located in Colorado.



Special Districts

Businesses located in the Denver Metro area are required to collect 0.6% for the Regional Transportation District (RTD), 0.1% for the Scientific and Cultural Facilities District (CD), and 0.1% for the Football Stadium District (FD) for a total of 0.8%. The RTD/CD/FD area includes all of Denver, Boulder, Broomfield and Jefferson Counties, the western portions of Adams and Arapahoe counties and the northeast portion of Douglas

SPECIAL SITUATIONS

Mail Order and Delivery

When you have a mail order business or you sell a product contingent upon delivery to another location, by state rules you must collect the taxes you have in common with the delivery location. For example, if your business is in Durango and your delivery site is in Durango, you must collect 7.4%, the same amount you would collect if it were purchased at your business location without delivery; there is no difference in the amount of tax collected. If your business is in Durango and you deliver to Grand Junction, the only state collected taxes that the two locations have in common is the 2.9% state sales tax; therefore, you would only collect 2.9%. However, Grand Junction is a "self-collected" Home Rule city. Therefore, it is recommended that you contact the city directly regarding the collection of the city sales tax if your business will be doing the actual delivery into Grand Junction or any other "self-collected" Home Rule city. Further, if you have a branch of your business in the destination location, you must collect all the taxes that would be normally collected by the branch location. In this example, you would collect 7.65% based on the taxes collected in Grand Junction. The rule regarding branch locations and delivery applies to all locations. Finally, with the exception of auto sales, if your customer takes possession of your product at your place of business, you must collect all the sales taxes for your area, regardless of where your purchaser resides or intends to use the item. NOTE: Internet sales are the same as catalog sales for Colorado sales tax purposes.

County, including Highlands Ranch and parts of Broomfield. Businesses located in (RTA) Rural Transportation Authority Districts are subject to sales/use tax of 0.2% in Basalt, 0.5% in Carbondale and 1.4% in Glenwood Springs. A sales tax rate of 0.6% in Gunnison County with the exception of the cities of Marble, Ohio, Pitkin and Somerset. A rate of 0.35% within the city limits of Gunnison (DRP 1002).

County

Of Colorado's 64 counties, 49 have established county sales taxes. All county taxes are collected by the state.

City

There are 214 cities that have established city sales taxes. Most small cities' sales taxes are collected by the state. However, most of the larger cities (home rule cities) collect the city portion of the sales tax directly from the vendor and require a separate reporting form.

Lodging

There are 24 counties and various cities that have established lodging taxes on hotels, motels, bed and breakfast, condominiums and camping spaces (DRP 1002).

Special Taxes

Other special taxes are the Local Improvement District tax and Mass Transit District tax. In addition, Douglas County has a Short-term Rental Tax (DRP 1002).

Example

To determine the amount of tax you must collect, add all the rates that apply to your location and type of business. For example, if you have a restaurant in the City of Lakewood, you must collect 2.9% for the state, 0.8% for RTD/CD/FD, 0.5% for Jefferson County, and 2.0% for Lakewood. Your total sales tax rate would be 6.2%.

Tax Charts

Publication DRP 1002, "Sales/Use Tax Rates," lists all the various sales tax rates throughout Colorado and should be used as a guide to calculate the sales tax rates for different locations. The Department of Revenue also publishes separate rate charts which are useful tools in determining the correct amount of tax based upon the tax rates and the dollar value of the sale. On the web, you can easily find the current sales tax and special tax rates in your county and/or city at www.taxcolorado.com By phone, call (303) 238-SERV (7378) automated forms system or to get sales tax information over the phone.

Mobile Businesses

If your business involves sales at your client's address or is mobile, you must collect the appropriate tax for each sales location. This will apply to many different types of businesses, including but not limited to: traveling salespersons, mobile locksmiths and interior decorators. If this situation applies to you, you will not have a principal place of business and must collect the appropriate tax for each point of sale. You should obtain a retail sales tax license to collect all state taxes and may need several city sales tax licenses from the home rule cities where you do business. However, you do not need to obtain an additional state tax license for each sale tax location. Department of Revenue Publication DRP 1002, Colorado Sales/Use Tax Rates, lists all state, county and city sales tax rates as well as addresses and phone numbers for home rule cites with separate licensing and collection procedures.

Craft Shows

If you will be selling at events, you must have a state multiple events license. If the event is held in a city that collects its own city sales tax, you may be required to obtain an additional city sales tax license.

Flea Markets

Flea markets which operate more than three times per year are considered to be a retail location. If you sell at a flea market more than five times a year, you must obtain a retail sales tax license. You may not use an event license.

Multiple Permanent Business Locations

If your business has multiple permanent branch locations, each branch must have its own license and collect the appropriate tax. Exception: vending machine operators and mobile businesses are only required to have one state license and report the appropriate tax collection under a single license. However, each machine is required

If you sell, rent or lease tangible personal property, or rent accommodations for less than 30 days, you must collect retail sales tax.

For more information about sales tax responsibilities or existing sales tax accounts, contact the Colorado Department of Revenue at (303) 238-SERV (7378). You can also visit its website at www.taxcolorado.com

If you use products on which Colorado sales taxes have not been paid, consumer use tax is due!

to display a vending machine decal and may still be subject to local licensing requirements. All local taxes and licensing at the vending machine location(s) are applicable.

Small Home Businesses

If you operate a small business from your home and your total annual sales are less than $1,000 per year, you do not have to obtain a state sales tax license. However, you must collect all applicable sales taxes and file a "Combined Annual Retail Sales Tax Return," DR 0100A, at the end of each calendar year. In addition, you will not be able to purchase inventory or supplies at wholesale without a license. If you are located in a home rule city, contact your city officials regarding your local sales tax requirements.

Charitable Organizations

Colorado allows charitable organizations that have been classified 501(c)3 by the U.S. Internal Revenue Service an exemption from state-collected sales tax. The exemption must be requested in writing using the form, "Application for Sales Tax Exemption for Colorado Organizations," Form DR0715. The exemption only applies to items purchased for use in the regular operations of the organization. When making tax exempt purchases, the organization must show a copy of the exemption certificate or have one on file with the vendor. Purchases of $100 or more must be made using an organization check or credit card.

Tax exempt organizations must still obtain a sales tax license and collect sales tax on all items sold to the public. However, organizations making sales on no more than 12 days per year with gross sales of less then $25,000 are exempt from state sales tax licensing and the obligation to collect sales tax. Most cities and counties have not adopted this exemption. Licensed charitable organizations are exempt from payment of the $50 deposit on retail sales tax licenses.

Sales Tax Fraud

It is illegal to use your sales tax license to obtain personal goods or assets which you will use in business tax-free. Only goods which will be resold may be purchased exempt from sales tax. Sales tax must be listed separately from the purchase price on the items you sell on all invoices. Vending machines, bar drinks and mobile food cart vendors are exempt from this rule. It is illegal to advertise that you will make retail sales "tax free" or absorb the cost of sales tax.

Filing Returns and Payment of Taxes

Filing Requirements

Once you have obtained a sales tax license, the Department of Revenue will send you preprinted "Combined Retail Sales Tax Return" forms DR 0100. If you have a wholesaler license, you will file annually. If you have a retail license and you collect less than $300 in state sales tax each month, you must file quarterly. If you collect $300 or more in state sales tax every month, you must file monthly. All sales tax returns are due the 20th of the month following the end of the taxing period; i.e., the return for April-June is due July 20. If the 20th falls on a Saturday, Sunday or holiday, the due date is the next regular business day. If you have a single or multiple event license, an individual return must be filed for every event. Each return must be filed by the 20th of the month following the month in which an event is held. County lodging tax and city collected sales taxes are each filed separately. If your sales tax return is not filed or postmarked on or before the due date, you must pay a 10 percent penalty plus interest on the amount due. You must file a sales tax return for every period, even if no tax was collected for the period. Each applicable line must be completed on the DR 0100.

Department of Revenue Service Centers

Colorado Springs
4420 Austin Bluffs Pkwy., Suite 188
(719) 594-8706

Denver
1375 Sherman St.
(303) 238-SERV (7378)

Fort Collins
1121 W. Prospect Rd., Bldg. D.
(970) 494-9805

Grand Junction
222 S. Sixth St., Room 208
Across from police station
(970) 248-7140

Pueblo
310 E. Abriendo Ave., Suite A4
Security Service Credit Union
(719) 542-2920

SALES TAX SUMMARY

- If you will be selling any tangible personal property, you must obtain a sales tax license. If you are selling to the end user, you are a retailer. If you will be selling to someone who will resell your product or use it to make another product that is resold, you are a wholesaler. If you are doing both, it is only necessary to obtain a retail sales tax license.
- Wholesale and retail licenses are $16 for a two-year calendar licensing period. The cost of a new license is prorated during the licensing period. There is a $50 deposit on retail licenses that is refunded once $50 in state sales taxes have been collected and remitted to the Colorado Department of Revenue.
- If a business has more than one location, each location must be licensed. The $50 deposit is only collected for the first location.
- If you will be selling products at an organized event, you are required to obtain an event license. A single event license is good only for a single event. A multiple event license is good for an unlimited number of events during the licensing period.
- A multiple event license costs $16 for a two-year calendar licensing period. The cost of a new license is prorated during the licensing period. A single event license costs $8. If a business has a retail or wholesale license, there is no charge for either a multiple event or single event license.
- Use the Colorado Business Registration, Form CR 0100, to apply for a retail or wholesale license. Use the Sales Tax Special Events Application, Form DR0589, to apply for a Multiple or Single Event license.
- If you will be located in a home rule city, you must contact the city regarding local licensing requirements.
- Determine your proper sales tax rate for your business location(s). DRP 1002, Sales/Use Tax Rates, contains the individual rates for all the different sales tax jurisdictions in Colorado.

WORKSHEET

State Sales Tax	2.9%
RTD/CD/FD Special Tax	_____
County Sales Tax Rate	_____
City Sales Tax Rate	_____
Other Sales Tax Rate	_____
TOTAL	_____

If you purchase items to use in your business, sales/use tax should be paid at the time of purchase or by filing a Consumer Use Tax Return, Form DR0252. The tax on items which were originally purchased for resale but are actually used by your business should be paid on your sales tax return. You may also be subject to local use taxes. Check with the city's sales/use tax (DRP 1002).

For more information concerning how and when to collect sales taxes, call (303) 238-SERV (7378) and/or your local home rule city.

Consumer Use Tax

Use tax is imposed on the storage, use or consumption, in Colorado, of tangible personal property upon which Colorado sales tax has not been paid. For example, if you purchase a piece of machinery for your business in another state, consumer use tax must be paid in Colorado. The amount of tax is based upon the primary location where an item is used and the purchase price or fair market value. The state use tax rate is 2.9 percent, the RTD/CD/FD rates total 0.8 percent and the RTA district taxes vary from one location to another. These taxes are paid to the Department of Revenue by filing a "Consumer Use Tax Return," Form DR0252. If you use items taken from your sales inventory, you may report the cost and tax on line 10 of your sales tax return. Using either method, county and city use taxes may also be due. If the seller collects the tax, it's sales tax. If the seller does not collect the appropriate tax, the consumer (user) must pay use tax.

Internet Sales

Website Internet access, e-mail services, website hosting and domain name registration are nontaxable services in Colorado. However, if service providers sell tangible personal property to customers in Colorado, then sales tax should be charged on those items. The sale of goods through the Internet is treated the same as the sale of tangible personal property through traditional selling methods.

Seller

A website that sells tangible personal property collects tax in the same manner as a mail order business that sends catalogs to customers to place phone or mail orders. If the seller and the customer are both located in the same taxing jurisdiction, then the seller must collect that tax. For further information on taxing jurisdictions please see FYI Sales 62, "Guidelines for Determining When to Collect State-Collected Local Sales Tax," found at www.taxcolorado.com.

Purchaser

If you are in Colorado and purchase goods over the Internet, you will owe sales tax on the purchase if buying from a seller that is also located in Colorado. If you are buying from a vendor not located in Colorado, you will probably not pay sales tax to the seller, but will pay state and possibly a special district use tax directly to the state of Colorado on form DR 0252, "Consumer Use Tax Return," found at www.taxcolorado.com.

Still Confused About Sales Tax?

Sales tax classes are held in the Service Centers. At the beginning of each month check www.taxcolorado.com for current class locations and schedules. Sales tax classes include information on what is sales tax, how to collect sales tax as well as how to fill out sales tax returns. Check with the local home rule cities to see if they offer a class.

Employees Vs. Independent Contractors

As your business grows you may ask, "Should I hire full or part-time employees or should I hire subcontractors to perform specific jobs on an as-needed basis?" If you hire contract labor, your paperwork is much easier. However, just calling someone contract labor doesn't make him/her so. If you incorrectly classify those working for you, you may end up paying substantial penalties and back taxes to the IRS and the State of Colorado.

Most individuals who work for you will be considered either common law employees or independent contractors. Unfortunately, there are many state and federal laws that are used to define an employment relationship and to determine whether an individual who performs services for you is an "employee" or an "independent contractor." Publication 15-A, "Employer's Supplemental Tax Guide," has more information on determining whether an individual is an independent contractor or an employee.

Common Law Employees

Common law employees are individuals who perform services subject to the control of an employer regarding what, where, when and how something must be done. The actual working relationship between an individual and a business is more important than the title (employee, subcontractor, day laborer, etc.) when determining if someone is a common law employee. It does not matter that the employer gives the employee substantial discretion and freedom to act, so long as the employer has the legal right to control both the method and results of service. You will file a W-2 at the end of the year to report wage and tax withholdings.

Independent Contractors

Persons who follow a trade, business or profession such as lawyers, accountants or construction contractors who offer their services to the general public are usually considered independent contractors. The key characteristic of an independent contractor is the worker's "independence." An independent contractor relationship is a business to business relationship. It is **NOT** a business to individual relationship. You will need to file a 1099 with the IRS at the end of the year to report the payments made to each contractor which is not a corporation. The IRS uses a list of factors to determine whether a worker is a common law employee or an independent contractor. The Colorado Unemployment Insurance Liability Unit and the Colorado Division of Workers' Compensation use nine criteria established by state law (8-40-202 and 8-70-115, C.R.S.) to determine whether a worker is a common law employee or an independent contractor. As a general rule, any individual who performs services for pay for another is deemed to be an employee, unless it is shown that the worker is free from control and direction in the performance of the services and is customarily engaged in an independent trade, occupation, or business related to the service performed. The burden of proof is on the employer to show that the foregoing two tests are met. The employer may create a rebuttable presumption of an independent contractor relationship with a worker.

Use a Written Document or Contract which is:

- Signed by both parties,
- Clearly discloses, in larger font, boldface or underline type, that the independent contractor is not entitled to unemployment insurance or workers' compensation insurance, and
- States that the independent contractor is obligated to pay all federal and state income taxes on any money earned pursuant to the contract and provides that the person for whom the services are performed **does not:**
- Require the individual to work exclusively for the person for whom services are performed; except that the individual may choose to work exclusively for the said person for a finite period of time specified in the document;
- Establish a quality standard for the individual; except that such person can provide plans and specifications regarding the work but cannot oversee the actual work or instruct the individual as to how the work will be performed;
- Pay a fixed or contract rate rather than a salary or hourly rate;

- Terminate the work during the contract period unless the individual violates the terms of the contract or fails to produce a result that meets the specifications of the contract;
- Provide more than minimal training for the individual employee;
- Provide tools or benefits to the individual; except that materials and equipment may be supplied;
- Dictate the time or performance; except that a completion schedule and a range of mutually agreeable work hours may be established;
- Pay the individual personally, but make checks payable to the trade or business name of the individual; and
- Combine his/her business operations in any way with the individual's business, but instead maintains such operations as separate and distinct.

The criteria stated above, along with other factors, form a basis for how the State distinguishes between employees and independent contractors. No one factor or criterion is by itself conclusive evidence that an individual worker is an employee or an independent contractor.

The following is a summary of the reasoning used by the Colorado Courts in deciding unemployment insurance cases on the independent contractor vs. covered employee issue. Please note that this summary should not be considered a substitute for legal advice.

The question of control is related to general control and is not concerned with the fact that the worker can exercise his/her own judgment in performing the detail of the work. Control refers to the right to control and not to the actual control used by the company. The possibility of future control can be used in determining if an individual is free from control and direction. The power to terminate a contract for personal service at any time without liability is a strong indication of control. The right to terminate services at any time involves the right to control. This factor, in addition to the fact that the worker is required to use the material furnished by the company and meet the quality control standard of the company, is usually sufficient to establish control. Other factors that may be considered indicators of control are: the worker reports on a daily basis, the worker is provided with an outline of procedures, and the worker is obligated to keep records or uses the name of the company.

Even though the company retains no right to control the performance of the worker, the worker must be customarily engaged in an independent business related to the service performed. The worker is not customarily engaged in an independent trade, occupation, profession or business related to the service performed if the worker devotes his/her whole time to performing duties for one company, is not engaged in any other work and performs the service within the usual course of business of the company. A company contesting liability for unemployment compensation taxes under independent professional exception is required to prove not only that a worker is customarily established and engaged in an independent business, but also that the independent business is related to the services the worker is performing for the company and that the worker is engaged in the business venture at the same time the worker is providing services for the company.

Even though a contract is framed to suggest existence of an independent contractor and not an employer/employee relationship, that fact alone does not create an independent contractor relationship. What is done under the contract is more significant than what the contract says. A company cannot circumvent the intended protection of the Colorado Employment Security Act by means of a contract that would place in jeopardy the security of employees.

The following is a summary of some criteria used by the IRS in determining whether a worker is an employee or independent contractor:

- An employee has no potential for suffering a monetary loss in connection with the work performed.
- An independent contractor can make a profit or suffer a loss in connection with the work performed.
- An employee works on the premises of the employer or on a route or location designated by the employer.
- An independent contractor may perform work at her/his own business premises.
- An employee performs services personally.
- An independent contractor may subcontract all or part of a work assignment.
- An employee may have assistants who are paid by the employer.

- An independent contractor hires, supervises and pays for his/her own assistants.

If a worker is a common law employee, the employer is responsible for state and federal income tax withholding, social security taxes (FICA) and state and federal unemployment insurance taxes. All common law employees must be covered by a workers' compensation insurance policy from the very beginning of employment. No distinction is made between different types

of common law employees. Managers and supervisors are treated the same as line workers. There is no difference between full-time or part-time employees or employees hired for only a short period of time.

An independent contractor is responsible for his/her own self-employment taxes. If she/he has employees, she/he also has the obligation to comply with all employer responsibilities including workers' compensation insurance for his/her employees. If the independent contractor does not have and maintain workers' compensation insurance, the prime contractor is responsible for providing coverage. The prime contractor may recover from the independent contractor the cost of providing workers' compensation insurance to the independent contractor's employees.

If you are not sure whether your workers are employees or independent contractors, you should contact the IRS, the Colorado Division of Workers' Compensation and the Unemployment Insurance Tax Liability Unit of the Colorado Division of Employment and Training for a determination of an actual employer/employee relationship. Potentially, a worker could be considered an employee by one agency and an independent contractor by another. Form SS-8, "Determination of Employee Work Status for Purpose of Federal Employment Taxes and Income Tax Withholding," should be filed with the IRS. Form UITA-9, "Worker Relationship Questionnaire," should be filed with the Unemployment Insurance Liability Unit, (303) 318- 9055 or 1-800-480-8299. You should contact the Division of Workers' Compensation, at 1515 Arapahoe, Denver, CO 80202, (303) 318-8700, toll free at 1-888-390-7936, or www.coworkforce.com/dwc/ directly regarding your workers' compensation liability.

Special Employment Situations

Commission and Piecework Employees

Commissioned delivery drivers, insurance agents, full-time commissioned sales agents of products for resale or for use in the buyer's business operation, and individuals who do piece work with materials supplied by the employer are considered statutory employees by the IRS. The employer is not required to withhold federal income tax from payments. However, if the contract states that an individual must perform the services personally, that the individual will perform the service on a continuing basis and that the employer will supply the equipment, then the payments are subject to FICA. Payments to commissioned delivery drivers and sales agents are subject to unemployment insurance tax. Because statutory employees are similar in some respects to both common-law employees and independent contractors, you should contact the Colorado Division of Workers' Compensation directly regarding your workers' compensation liability, (303) 318-8700. To order W-2's and 1099's contact the IRS forms number at 1-800-829-3676.

Children and Spouses

If your business is a sole proprietorship, your children who work for you are not subject to FICA and Medicare taxes until age 18. If a child is paid for domestic work in the parent's home, wages are not subject to FICA and Medicare taxes until the child reaches age 21. Federal unemployment insurance taxes are not required for wages paid to children under the age of 21 who work for their parents. Whether a child can be claimed as a dependent on the parent's individual tax return is not considered. All wages paid to children may still be subject to income tax withholdings; use form W-4 and the appropriate tables to determine if income tax withholding applies. Wages paid by a sole proprietor to a spouse are subject to income tax withholding and social security taxes (FICA), but not to federal unemployment insurance taxes. All wages paid to a child or a spouse are subject to withholding taxes, FICA and state and federal unemployment insurance taxes if the parent/spouse's business is a partnership or a corporation, unless each partner is parent of this child. Workers' Compensation Insurance must be provided for family members/ employees.

Corporate Officers

Generally, working corporate officers are considered employees by the IRS and may not be paid through a distribution of dividends only. They must be paid a "reasonable wage or salary." All wages are subject to federal and state wage withholding, FICA, and unemployment insurance taxes. Corporate officers who own more than a ten percent share and who have a managing interest in the business may elect to reject workers' compensation coverage. These rules apply to the corporate officers in both C and S Corporations.

Churches and Charitable Organizations

The employees of charitable 501(c)(3) tax-exempt organizations may be subject to special exemptions. All wages paid to a common-law employee are subject to federal and state income tax withholdings. All wages are subject to social security tax unless wages are less than $100 for an entire calendar year or are paid by a church or a church-controlled organization that opposes payment of social security taxes for religious reasons. 501(c)(3) tax-exempt organizations are exempt from payment of federal unemployment tax. All employees must be covered by workers' compensation insurance regardless of 501(c)(3) status.

Leased Employees

An alternative to hiring your own employees is to contract for workers from a temporary employment agency or an employee leasing agency. You pay the agency a fee to provide the number and type of employees you need and specify the conditions they must work under, but the individual workers remain employees of the agency. The agency is responsible for all payroll taxes, unemployment insurance, and workers' compensation. However, if a leasing company defaults in payment of unemployment insurance, the client company is then responsible for payment of unemployment insurance. A temporary agency is used when workers are needed for a short period of time. Leasing agencies provide employees under contract on a long-term basis. Please contact the Unemployment Insurance Liability Unit at (303) 318- 9100, 1-800-480-8299 or www.coloradoworkforce.com

Household Employees

If you hire someone to work in your own home, you may have responsibilities as a household employer. If the employee earns over $1,300 per year, you are responsible for social security and Medicare taxes. If the employee earns over $1,000 during a quarter, you will also be responsible for unemployment insurance. The law does not require that you withhold federal or state income taxes for your employee. However, you may do so voluntarily if requested by your employee and s/he completes Form W-4. Workers' Compensation Insurance must be obtained for household employees who work 40 or more hours per week or 5 or more days per week. For additional information regarding your responsibilities as a household employer, call the IRS, 1-800-829- 1040, and request Publication #926, "Employment Taxes for Household Employers."

Seasonal Employees

If you operate a seasonal business you may file a "Request for Seasonal Determination" with the Unemployment Insurance Liability Unit of the Department of Labor & Employment. A business that operates year-round and also hires seasonal employees may also file. Seasonal employer status will disqualify seasonal employees from collecting unemployment benefits during your off season. As a result, your unemployment experience rating will not be affected. However, if a seasonal employee is unemployed at the beginning of the next season, she/he will qualify to collect unemployment benefits at that time.

To qualify as a seasonal employer, your seasonal period may be no longer then 26 weeks per year and no more than 25% of your employees, in a seasonal occupation, may work longer than the 26-week period. There must be at least 45 consecutive days when you have no employees in the seasonal occupation. If your entire business operates less than 26 weeks per year, then all your employees automatically qualify as seasonal employees.

For example, if you employ seasonal groundskeepers and "regular" office workers, no more than 25% of all your groundskeepers may work outside your 26 week seasonal period; and, there must be a minimum 45 days when no groundskeepers are working. Your office workers may continue to work the whole year without impacting the status of your seasonal employees. The qualifications for seasonal employment are difficult to understand. If you have additional questions, please contact the Unemployment Insurance Liability Unit at (303) 318-9100 or 1-800-480-8299.

Tax Credits for Creating Jobs for Welfare Recipients

The state and federal government offer tax credits to businesses that offer employment to individuals receiving public assistance.

NOTE: The Welfare to Work Tax Credit has been extended to those employees who start work prior to January 1, 2002. Federal tax credits can and do change periodically. They may be enacted or extended as dictated by Congress and Executive Order. It is advised that you check with the IRS for any changes in credits you are interested in claiming. The State of Colorado allows employers to claim a credit of 20% of their annual costs for voluntarily providing "eligible services" for the employees who have received public assistance pursuant to the "Colorado Works Program," 39-22- 521(1), CRS. "Eligible services" include assistance with childcare, health/dental insurance benefits, job training and transportation. The credit is limited to expenditures made on an eligible employee during the first two years of his/her employment.

For more information, contact the Colorado Department of Revenue and request FYI Income 34, "Colorado Works Program Credit," (303) 238-SERV (7378). The Welfare-to-Work Tax Credit (WOTC) is a federal income tax credit that encourages employers to hire long-term welfare recipients who begin work prior to January 1, 2002. This "new" tax credit can reduce employer federal tax liability by as much as $8,500 per new hire. To qualify, new employees must work at least 400 hours or 180 days and must be long-term welfare recipients (longer then 18 consecutive months). The tax credit is 35% of "qualified wages" during the first year of employment and 50% for the second year. Qualified wages are capped at $10,000 per year but may include tax-exempt amounts under accident or health plans, as well as educational assistance and dependent assistance programs. An employer must apply for and receive certification from the state Welfare Opportunities Tax Credit (WOTC) coordinator that a new hire is a long-term AFDC or TANF recipient before the employer can claim the Welfare-to-Work Tax Credit. Federal tax credits can and do change periodically. They may be enacted or extended as dictated by Congress and Executive Order. It is advised that you check with the IRS for any changes and credits you are interested in claiming.

To apply:

- Complete IRS Form 8850, "Pre- Screening Notice and Certification Request for Work Opportunity and Welfare-to-Work Tax Credits" by the date the job offer is made.
- Complete either U.S. Department of Labor ETA Form 9062, "Conditional Certification Form," if provided to the job seeker by a participating agency or ETA Form 9061, Individual Characteristics Form," if the job seeker has not been given a conditional certificate form.
- Mail the IRS Form 8550 and either ETA Form 9062 or 9061 to the Colorado WOTC Coordinator within 21 days of new hire's start date. Contact the Colorado WOTC Coordinator at 1515 Arapahoe, Tower 2, Suite 400, Denver CO 80202 for more information and to obtain the necessary forms or visit the Welfare-to-Work website at http://www.doleta.gov/

Earned Income Tax Credit (EITC)

The EITC is a special tax benefit for working people who earn low or moderate incomes. Small business owners can benefit as it can provide support to their employees and make the positions in their company more attractive and manageable for former welfare recipients. Low-income employees whose annual incomes are less than certain amounts may qualify to receive EITC; for tax year 2003, earned income & modified adjusted gross income had to be less than:

$11,230 (no qualifying children; $12,230 if married filing jointly) $29,666 (one qualifying child) or; $30,666 if married filing jointly) $33,692 (more than one qualifying child; $34,692 if married and filing jointly). The dollar amounts to qualify for EITC change annually. The EITC may be available to single workers between the ages of 25 and 65 with no children in the home. It may also be available to all workers, regardless of age, if there are children in the home. Workers who have at least one qualifying child in the home may be eligible to receive a portion of credit in their regular paycheck. Income guidelines and further information on qualification can be obtained by contacting the IRS at 1-800-829-1040, by ordering Publication 596, "Earned Income Tax Credit" (EITC) at 1-800-829-3676, or by visiting its website at www.irs.gov.

Advanced Earned Income Credit allows employees with at least one qualifying child to receive the credit throughout the year as part of their regular pay – AT NO ADDITIONAL COST TO THE EMPLOYER. To receive EITC advance payments employees must simply complete Form W-5. Advance payments don't cost employers money. Employers simply subtract the advance payments they have added to their workers' paychecks from the total taxes withheld from all employees they would otherwise deposit with the IRS. Most employers with automated payroll systems can easily program advance payments into their systems. Although employers may not be aware of the advance EITC payment option, any eligible employee who files a W-5 with an employer must be given advance payments. Employers are NOT required to make sure employees are eligible for the EITC - that is the employee's responsibility. For more information, see the IRS Employer's Tax Guide, Circular E. It is available for free by calling 1-800- TAX-FORM.

FINDING THE RIGHT PERSON

Once you have established your employment policies and procedures, you must clearly define the type of employee(s) you are seeking and their specific job responsibilities. Determine the lowest level of education, experience and skills you can accept. Be certain you know what skills are necessary to do the job. How much training are you willing to provide?

Each employment situation is unique. What may work for one business or even one specific job opportunity may not work for the next situation. Advertising in the local paper, registering with a trade organization or hiring an employment agency are all viable options in different situations. The Colorado Department of Labor and Employment administers more than 30 local Workforce Centers throughout Colorado. They help match the right employee with the right employer. See the Sources of Assistance chapter of this Guide for more information on the Workforce Center nearest you.

Federal and state civil rights laws prohibit discrimination in employment based upon race/color, creed/religion, national origin/ancestry, sex, age (over 40), and disability. Also prohibited is discrimination based on marriage to a co-worker (companies with 26 or more employees). Colorado law and the Americans with Disabilities Act (ADA) prohibit discrimination based on physical or mental disabilities. The Employer Responsibilities section contains additional information about state disability discrimination laws and the ADA, including the ADA Technical Assistance Information Center's toll-freeline, (800) 949-4232.

Your written application andinterview are important tools in selecting the best applicant for the job. The Colorado Civil Rights Division has persons on duty daily to answer questions about all aspects of fair employment laws.It also publishes an informative brochure titled "Preventing Job Discrimination," which is a useful guide to avoiding discriminatory questions during the hiring process. Contact the Division at (303) 894-2997, 1560 Broadway, #1050, Denver, CO 80202-5143, or e-mail: ccrd@dora.state.co.us

Within the limits established by law, your goal is to find out as much as possible about each applicant including: education, professional background, work habits and skills, their interest in your position and their short and long-term goals. Ask questions about the applicant's previous job and why they left. If you're looking for someone who can work alone, does the applicant have the proper aptitude? If you're looking for a "team player," will the applicant complement the other members of the team? Evaluate the applicant's responses, written and verbal. Are they evasive or contradictory? Do they have the necessary skills for the job? Are they prepared to give you the commitment you desire regarding such issues as overtime, weekend work, travel, etc.?

After the interview is over, encourage the applicant to keep in contact with you. Never commit yourself to a specific applicant until all applicants have been interviewed. Verify all information and references on the application. Request information in writing if you desire a written response. Now make your selection! Remember, the right employee will make you money. The wrong employee will cost you money, time, materials and even customers.

Personnel Policies, Finding and Hiring Employees, Employee Regulations

Once you have determined that you will need employees in your business, you must invest the proper time and resources into establishing your personnel policies and finding the right people. You must also be aware of the federal and state regulations for employees.

Personnel Policies

While establishing written personnel policies may be time consuming, it can prevent significant aggravations and problems later. Your policy manual should address all the various issues you expect and don't expect to arise in the normal operations of your business – the good and the bad. However, written policies establish rights and responsibilities for your employees AND yourself. If you establish written policies, it is important that you follow them also, e.g. written warnings, review procedures, etc. Issues that may be addressed by personnel policies include:

• **Hours**: How many hours to be worked per

day, per week? Discuss evening, weekends, holidays, peak periods, etc. Remember all employees except salaried supervisors are entitled to receive overtime. Determine how you will allow employees time off for personal needs. Establish clear procedures for paid and unpaid time off for emergencies, family illnesses, jury duty, etc. The Family and Medical Leave Act requires all employers with 50 employees or more to provide up to 12 weeks of unpaid leave for births, adoptions and health care of immediate family members in a 12 month period.

- **Compensation:** Make your salaries competitive with similar local businesses. Wages are a significant cost in operating your business. However, low wages can result in higher turnover and lower productivity. Establish clear vacation policies. How long? When? Clearly define procedures for when two or more employees wish to go on vacation at the same time. Will you provide paid or unpaid vacations? Paid vacations are an expected basic benefit by many employees.
- **Fringe Benefits:** Consider offering your employees discounts, health insurance, pension plans, profit sharing and/or educational assistance. Fringe benefits can increase worker job satisfaction and productivity. If you provide benefits, which employee will receive them, e.g. all employees, only full-time employees, only management, etc.? You must have clear, written, non-discriminatory policies for all fringe benefits. See the Liabilities and Insurance chapter of this Guide for more information about health insurance. If your business requires skilled, professional employees and/or you desire to establish a long-term employment relationship, a pension plan and/or health insurance may be a requirement to achieve employee loyalty and commitment. If you offer a pension plan, it must meet the requirements of ERISA (Employee Retirement Income Security Act). General information on ERISA can be obtained from the U.S. Department of Labor, Pension and Welfare Benefits Administration, 1100 Main St., Ste. 1200, Kansas City, MO 64105, (816) 426-5131.
- **Grievances & Terminations:** Expect and plan for conflicts with your employees. Plan and establish grievance procedures. Outline your policy for probationary employment, period review, promotions and raises. Clearly document the steps to be used to resolve conflicts and then follow them and document your actions in writing. Establish clear policies for such matters as layoffs, seniority rights, severance pay, etc.
- **Non-competition Agreements:** Is your business involved in a very competitive environment or does it work on confidential research? Should key employees be required to sign legally enforceable non-competition agreements? Do you have all employee and independent contractors sign non-disclosure agreements relating to confidential information? Do you clearly state that any ideas and inventions developed by employees and independent contractors working for your company are the property of your company? Your written personnel policies should be reviewed by an attorney to determine enforceability, compliance with state and federal employment laws and to ensure that they do not unduly increase your own liability. Each employee should receive a copy of your personnel policies upon hiring. Explain verbally any critical parts of your employment policies. Verify that each employee fully understands the document.

The Internal Revenue Service's Small Business Tax Education Program (STEP) is a cooperative effort with local organizations to provide business tax education to the small business owner. Check into the IRS Small Business Tax Education Program in your area and take the first STEP to making your taxes less taxing! Assistance is only a phone call away. Just call 1-800-829-1040.

Employee Regulations

Once you have made your employee selection(s) you will need to familiarize yourself with the federal and state employee regulations. The Colorado Department of Labor and Employment regulates wages, hours and working conditions for employees.

- **Minimum Wage:** Federal minimum wage is $5.15 per hour. Minimum wage must be paid all employees and emancipated minors whether employed on an hourly, piecework, commission, time, task, training or other basis.
- **Overtime Pay:** At least 1½ times the employee's regular rate of pay must be paid for all hours worked over forty (40) in one work week. In addition, State law requires overtime pay for any work after (12) consecutive hours. Any additional questions regarding work hours and overtime, please call or write the Colorado Division of Labor, Labor Standards Office, 1515 Arapahoe St., Tower II, Suite 375, Denver, CO 80202 or call (303) 318-8441 or 1-888-390-7936.
- **Federal Law:** Pursuant to The Fair Labor Standards Act (FLSA) whenever both laws apply and FLSA differs with Colorado law, the law providing more protection or setting the higher standard applies.
- **Breaks:** Employees working in the following four industries: (1) retail and service, (2) commercial service, (3) food and beverage, and (4) health and medical, are covered by the work order 22 and shall be permitted breaks and meal periods during the workday. The law requires at least a 10-minute break every four hours (or a major fraction thereof). A half-hour meal period is required for any shift exceeding five hours.
- **Penalty: Failure** to comply with Colorado Minimum Wage Order 22 is a misdemeanor and may be punishable by a fine or imprisonment.

For additional information and postings, write the Colorado Division of Labor, Labor Standards Office, 1515 Arapahoe St., Tower II, Suite 375, Denver, CO 80202 or call (303) 318-8441 or 1-888-390-7936.

Employer/Payroll Filing Requirements and Registration Applications

Form SS-4

You must have a federal employer identification number (FEIN) when you are an employer. You will use this number to make your federal tax deposits, and when you file your employment tax returns. You can obtain your FEIN by: a) filing a completed

SS-4 with the IRS EIN Operation center for your state and you'll receive your FEIN within four weeks; b) calling TELE (800) 829-4933 Monday through Friday 7 AM to 10 PM for your time zone and you will receive your FEIN immediately; or c) faxing your SS-4 to FAX-TIN number for your state.

FAX-TIN is available 24 hours a day, seven days a week; be sure to include a cover sheet showing your FAX # and you should receive your FEIN within four business days. There are other times when you must have a FEIN, such as when you have formed a corporation or a partnership. Your bank may also ask for an FEIN when you open a business bank account. If you are a sole proprietor, you are not required to have a FEIN.

The Colorado Business Registration Form, CR100

The CR100 is a multi-use form which may be used to open a number of accounts. If you will have employees, this form will open your state wage withholding account with the Colorado Department of Revenue and your state unemployment insurance account with the Colorado Department of Labor and Employment. You may also use this form to register your trade name as a sole proprietor or a general partnership and obtain a state sales tax license.

INS Form I-9

One form that you must keep in your employees' personnel file(s) is the Immigration and Naturalization Services I-9 Form. This paperwork was devised to ensure that employers do not hire illegal aliens. The paperwork is not difficult and is required. The I-9 Form must be completed within three working days after employment begins. Employees must submit documentation that verifies residency to their employer. All documentation unavailable on the hire date must be obtained within twenty-one days. The form lists a variety of different forms of identification that may be used individually or in combination to verify eligibility to work in the United States. The penalties for failing to comply with this requirement begin at $250 for each unauthorized employee and can quickly reach $10,000 per violation. For further information regarding the I-9 Form, contact the INS at 1-800-357-2099.

EMPLOYERS HAVE RIGHTS AND EMPLOYEES HAVE RIGHTS, TOO. KNOW THE MINIMUMS!

For information and postings contact the: State of Colorado Department of Labor and Employment Labor Standards Office (303) 318-8441

Form W-4

Each employee must date and sign a completed W-4, Employee's Withholding Allowance Certificate. You should include it in every employee's personnel file as it will provide a record of his/her proper name, address, and social security number. The W-4 provides you with information regarding the employee's marital status and the number of exemptions claimed to determine the proper federal and state income tax withholdings from your employee's payroll checks. Maintaining this form on file is not only a requirement of the IRS but may also be used as evidence in disputes that arise with the IRS or employees. The W-4 must be filed with the IRS only in special circumstances, which is explained in Publication #15, Employer's Tax Guide. If any of your employees claim exempt status, including students, they must fill out a new W-4 every year. Regular employees should fill out a new W-4 whenever they move or there is a change in their tax status, i.e., got married or divorced, increase/decrease dependents or changed the number of their exemptions. All employers in the State of Colorado must report a newly hired employee to the Division of Child Support Enforcement. A copy of the new employee's W-4 or a new hire report must be sent to the State Directory of New Hires in Denver within 20 days of the employee's date of hire or, at the option of the employer, on the first payroll after the 20 days have expired. This new report will be used to identify parents who are delinquent on child support payments. For more information on New Hire reporting, call the Colorado State Directory of New Hires at (303) 297-2849.

Payroll Taxes — Filing Requirements and Forms

Wage Withholding and Social Security/Medicare Taxes

If you have employees, you will be responsible for withholding federal income taxes and Social Security/Medicare taxes from your employees' wages. As the employer, you must pay an equal share of Social Security/Medicare taxes. Circular E, the federal "Employer's Tax Guide," is updated annually and should be used to determine the correct tax amounts. The amount of taxes withheld will determine how often you must deposit the taxes into your bank account. Deposits may be made at a Federal Deposit Bank, using Form 8109, or you may use the Electronic Federal Tax Payment System (EFTPS). EFTPS is similar to automatic bill payment. To get more information or to enroll in EFTPS, call the IRS at 1-800-555-4477 or 1-800-945-8400. Some employers are required to use EFTPS; you will be notified if this applies to you. At the end of each quarter, you must file Form 941 to report total wages paid, taxes withheld and due, and taxes deposited. If you have employees, you must withhold Colorado withholding tax from all employees working in Colorado, including nonresidents. DRP 1098, "Colorado Income Tax Withholding Tables," should be used to determine the proper withholding rates for your employees. The state requires that once you have collected more than $400 in state wage withholdings, you must file the total collected with the state when you file your next federal return. If at the end of a quarter you have still not collected $400 in wage with-holdings, you must file with the state regardless of the amount due. If you annually withhold more than $50,000 in state wage withholding, you must file via Electronic Funds Transfer (EFT). If you annually withhold less than $50,000, you may elect to file via EFT or file coupon Form DR1094 with a check or money order.

Unemployment Insurance

Unemployment insurance is a fund established by law to provide benefits to employees who lose their jobs through no fault of their own. Several factors determine the amount of benefits that are paid every two weeks to eligible persons actively seeking employment. As an employer, you will be required to pay both state and federal unemployment insurance taxes. An employer must pay unemployment insurance tax on wages paid to all employees - including corporate officers. The federal unemployment insurance rate is 6.2% on the first $7,000 in wages paid to each employee every year. However, as a new employer, you should qualify for a 5.4% credit for an effective rate of 0.8%. If your federal unemployment tax liability is over $100 at the end of any quarter, you must make a deposit of the amount due. Use Form 8109 or the EFTPS system described earlier. If your liability is less than $100, the liability may be carried over and added to the next quarter. At the end of the calendar year, you must file Form 940 or 940EZ to report your total unemployment tax liability for the year. If your liability at the end of the calendar year is less than $100, you may deposit it or pay it with Form 940. Form 940 and your final unemployment tax payment are due by January 31. For more information and forms, contact the IRS at 1-800-829-1040 or 1-800-829-3676.

All Colorado employers must also pay state unemployment insurance tax. The first $10,000 in wages paid to each employee during every calendar year is subject to state unemployment insurance tax. The current state unemployment insurance tax rate for new businesses is 1.7% plus a surcharge percentage. (NOTE: Some industries may pay a higher rate, e.g. construction trades.) You must file Form UITR-1, Unemployment Insurance Tax Report, and UITR-1(a), Unemployment Insurance Report of Workers Wages, every quarter regardless of the amount of unemployment tax due. At the end of each year, you will receive notice of your tax rate for the next calendar year based on your business' unemployment claims history. If you purchase an existing business, you may acquire that business' experience rating and be liable for any delinquent unemployment insurance taxes. You may receive credit for taxes paid by the previous owner on employees during the current year. For more information on forms or optional reporting methods, contact the Department of Labor and Employment, Unemployment Insurance Tax Accounting Section at (303) 318-9100 or 1-800-480-8299.

BUSINESSES WITH MORE THAN $200,000 OF ANNUAL EMPLOYMENT TAX OBLIGATIONS HAVE BEEN REQUIRED TO MAKE ELECTRONIC PAYMENTS SINCE JULY 1, 1999. ALL BUSINESSES WILL BE REQUIRED TO USE THE ELECTRONIC SYSTEM AT SOME TIME IN THE FUTURE. FOR MORE INFORMATION ON THE SYSTEM, CALL 1-800-945-8400.

Occupational Privilege Taxes

This is often referred to as the "head taxes" on individuals who work within the limits of certain cities. This tax is collected through employer and employee contributions. You must pay the employer a portion of the tax on yourself regardless of whether you are a sole proprietor, partnership or corporation. If your business is located within the limits of a city that requires this tax, you must set up an account through the city clerk's office. Make sure to find out about your city requirements. Contact your city clerk for more information.

Employee W-2's

At the end of the year, you are responsible for reporting wage and tax withholding information with the W-2 forms (Wage and Tax Statement). Copies of the W-2 must be sent to your employee no later than January 31. Copy A of Form W-2 must be sent to the Social Security Administration (SSA) by February 28 with Form W-3. If you file 250 or more form W-2's, you must file the information with the SSA via magnetic media. For your Colorado employees, you must file DR1093, Transmittal of State W-2's. If you withheld more than $11,000 in state taxes for your employees, you must report W-2 information to the state via magnetic media. Magnetic media includes magnetic tape and computer diskettes. For more information regarding magnetic media, contact the Colorado Department of Revenue, (303) 238- 7378. To order W-2's call the IRS Forms number at 1-800-829-3676.

Independent Contractor 1099s

If you have determined that your workers are independent contractors, you are not required to withhold or pay any taxes on their behalf. However, you must keep track of how much you pay them and file Form 1099 Miscellaneous for each person to whom you paid $600 or more during the year. The independent contractor must be sent her/his Form 1099s Miscellaneous by January 31. Copy A of Form 1099s must be sent to the IRS by February 28 with Form 1096 "Annual Summary and Transmittal of U.S. Information Return." If you file 250 or more Form 1099s you must file via magnetic media. To order 1099s call the IRS Forms number at 1-800-829-3676.

Payroll Records and Audits

It is important to keep complete and accurate employee/payroll records and to retain the records for at least five years. The IRS, the Immigration and Naturalization Service, the Colorado Department of Revenue and the Colorado Department of Labor & Employment all have the authority to audit your records. Remember, your responsibilities begin as soon as you hire an employee.

Workers' Compensation

Workers' Compensation is mandatory insurance that provides coverage for medical expenses and lost wages due to a job-related injury or occupational disease. The employer must pay the cost of coverage foremployees. All employees must be covered beginning with the very first employee. Corporate officers and members of a Limited Liability Company

who are compensated must be covered as an "S" corporations unless they own at least ten percent of the business and they formally elect in writing to reject coverage. The election to reject coverage is filed with the insurance carrier. If there are no other employees, the election to reject coverage should be filed using Form WC43 with the Division of Workers' Compensation. According to state law, sole proprietors and partners in a partnership have the option of electing coverage for themselves, although a prime contractor may require it as a condition of a project contract. However, this election may significantly affect health insurance coverage. Carefully discuss this election with your insurance agent before making your decision. You can obtain workers' compensation insurance from an independent insurance agent or Pinnacol Assurance, 720 South Colorado Blvd., Suite 100 N, Denver, CO 80246, 1-800-873-7242. Pinnacol Assurance is NOT a state agency.

Premium Cost

The cost of workers' compensation insurance coverage is based on units of $100 of payroll. The rate per $100 is based on the risk classification of your employees and your experience rate and is determined by your insurance carrier. At the beginning of the year and when you start your business, you will be required to estimate your payroll for the coming year. Your insurance carrier will require you to pay your premiums in advance similar to car or homeowner's insurance.

Premium Adjustments

At the end of each year, the actual payroll of your employees is determined either by audit or by completing a self-examination report. The actual cost of insurance is compared to the advanced premiums paid, and the difference will be charged or refunded to you. Some policies can be assigned a quarterly adjustment basis. This type of policy is normally limited to seasonal types of businesses, such as construction, where an annual estimate of payroll is difficult to determine. This policy will require a deposit based on a percentage of the annual premium. The deposit is held by the carrier for the life of the policy. Upon cancellation, the entire deposit is credited to your account. You are required to report and pay premiums for actual wages paid each quarter.

Accident Reports

You must file an accident report with your insurance carrier within 10 days of a work-related accident. It is the injured employee's responsibility to report the accident to you in writing within four days. If the employee is physically or mentally unable to provide notice, it is the responsibility of the immediate supervisor to submit written notice. Injured workers have two years to file claims for compensation with the Colorado Division of Workers' Compensation.

Injured workers may receive medical and compensation benefits. Medical benefits include unlimited payment for all authorized medical, hospital, and surgical costs, prescriptions, medical apparatus and prosthetic devices. Compensation benefits include reimbursement of up to two-thirds of an employee's lost average weekly wage for a specified period, a lump sum payment or both, based on the type of injury/disability.

Risk Management and Accident Prevention

Safety and accident prevention assistance is available from your insurance carrier. This service may include safety programs, cost control recommendations and a review of your accident and loss history. In addition, employers are encouraged to take part in the Colorado Division of Workers' Compensation Premium Cost Containment Program. Employers who have had a qualifying cost containment program in place for one year may receive cost containment certification. Certification in this program can result in a reduction in premiums from up to 10 percent. As a new business, you should consider implementation of a cost containment program beginning with your very first employee. Contact the Division of Workers' Compensation, Premium Cost Containment Program, 1515 Arapahoe St., Tower 3, Suite 333, Denver, CO 80202, (303) 318- 8640 for more information.

FOR MORE INFORMATION & ASSISTANCE

For more information regarding your employer responsibilities, call the following numbers:

Federal Payroll Taxes
1-800-829-1040

Colorado Wage Withholding
(303) 238-7378

Unemployment Insurance
(303) 318-9100
or 1-800-480-8299

Workers' Compensation
(303) 318-8700 or
1-888-390-7936

OSHA
(303) 844-1600

Civil Rights Division
(303) 894-2997
or 1-800-262-4845

Americans With Disabilities Act - Jobs Accommodation Network
1-800-526-7234

Department of Labor and Employment - Labor Standards
(303) 318-8441

New Hire Reporting
(303) 297-2849

(SBAP) Small Business Assistance Program- Air and Environmental Assistance
(303) 692-3175

The Occupational Safety and Health Administration (OSHA)

The Occupational Safety and Health Administration (OSHA) is charged with the responsibility to:

- Develop mandatory job safety and health standards with "separate but dependent

EMPLOYER POSTING REQUIREMENTS

There are numerous state and federal posting requirements for employers. Some may only apply under certain circumstances, but several are required in all situations. Posters may be obtained free from the following agencies or may be purchased in combinations from many office supply companies.

Anti-Discrimination Colorado Division of Civil Rights
1560 Broadway, Suite 1050
Denver, CO 80202
(303) 894-2997
1-800-262-4845
www.dora.state.co.us/civil-rights

Occupational Safety
Occupation Safety & Health Administration (OSHA)
1999 Broadway, Suite 1690
Denver, CO 80202
(303) 844-1600
http://www.osha.gov

Polygraph Protection Act, Federal Minimum Wage, Family & Medical Leave Act
U.S. Dept. of Labor
Wage-Hour Division
1801 California St., Ste. 935
Denver, CO 80202
(720) 264-3250
http://www.dol.gov/elaws

Equal Employment Opportunity
Equal Employment Opportunity Commission (EEOC)
PO Box 12549
Cincinnati, OH 45312
1-800-669-3362
http://www.eeoc.gov/

State Minimum Wage Colorado Division of Labor
Labor Standards Unit
(303) 318-8441
www.coworkforce.com

Unemployment Insurance
Division of Employment and Training
(303) 318-9000
1-800-480-8299, State Wide Only
www.coworkforce.com

For Workers' Compensation Posters, contact your workers' compensation insurance carrier. You should prepare and post the following notice in 1/2 inch letters: "If injured on the job, written notice must be given to your employer within four working days of the accident, pursuant to section 8-43-102(1) CRS."

Employers are also required to post or notify workers in writing regarding when and where they will be paid.

responsibilities and rights" for employers and employees

- Encourage and assist employers and employees to reduce workplace hazards and to implement/improve safety and health programs
- Establish training programs to increase the number of effective occupational safety and health programs and qualified personnel
- Conduct safety and health inspections at employer worksites
- Enforce OSHA standards and issue citations and fines as appropriate to ensure the safety and health of employees.

OSHA safety and health standards fall into four major categories – general industry, maritime, construction and agriculture. Standards are published in the Code of Federal Regulations (CFR), Title 29, Part 1900- 1999. Business owners should consult the CFR available at many public libraries and/or contact OSHA directly, 1999 Broadway, Suite 1690, Denver, CO 80202-5716, (303) 844-1600. Employers may ask OSHA for a variance from a standard or regulation if they can demonstrate that their workplace conditions and practices are at least as effective as those required by OSHA.

With the exception of some exempt industries, employers of 11 or more employees must maintain updated records of occupational injuries. Employers with 10 or fewer employees are exempt unless selected by the Bureau of Labor Statistics or OSHA. Small employers who are selected to maintain records will be notified in advance and supplied the necessary forms and instruction. Recordkeeping-exempt employers must still comply with all other OSHA Standards including the display of the OSHA poster, reporting within 8 hours an accident that results in one or more fatalities or the hospitalization of three or more employees.

OSHA has the authority to enforce safety and health standards and to conduct unannounced workplace inspections. "Upon presenting the appropriate credentials to the owner, operator or agent in charge" of a business, an OSHA compliance officer is authorized to enter during regular working hours without delay, to inspect all areas where work is performed. Inspections must take place at "reasonable times and within reasonable limits." The inspection may include private interviews with the owner, operator and/or any employee. After the compliance officer completes his report, the area director determines what citations, if any, will be issued, and what penalties, if any, will be proposed.

Colorado State University (CSU) offers free OSHA consultation services. Program staff are experienced professional safety and industrial hygiene consultants trained to identify safety and health hazards in your workplace. They offer recommendations to

reduce or eliminate hazards. Their purpose is to help businesses meet the OSHA job regulation standards and develop an ongoing, effective safety and health program. They will provide confidential, comprehensive written reports containing their findings and recommendations. Follow-up services are available as necessary. CSU consultants do not issue citation penalties for OSHA violations. Because the program is funded by OSHA, consultants are required to notify OSHA only in instances of refusal to correct serious violations within a reasonable amount of time. The primary aim is to assist responsible small employers in establishing safe and healthful working environments. For more information contact: Colorado State University, Occupational Health and Safety Section, 155 Environmental Health Bldg., Fort Collins, CO 80523- 1681, (970) 491-6151 (telephone) or (970) 491-7778 (fax).

OSHA continuously strives to provide positive programs to help businesses comply with regulations and tries to avoid issuing citations and fines. Employers are encouraged to contact OSHA directly for the most up-to-date information regarding consultation services and voluntary compliance programs.

Employee "Right to Know" Laws

OSHA also enforces Employee "Right to Know" laws which apply to all businesses with employees such as contractors, manufacturers, or industrial processors who routinely work with hazardous chemicals. The law is intended to make sure that all hazardous and toxic chemicals that are produced, imported or used in the workplace are properly evaluated. If they pose a hazard to employees, employees must be notified through a "Hazard Communication Program." The goal of the law is to reduce the growing number of injuries, illnesses and deaths caused by exposure to hazardous chemicals in the workplace.

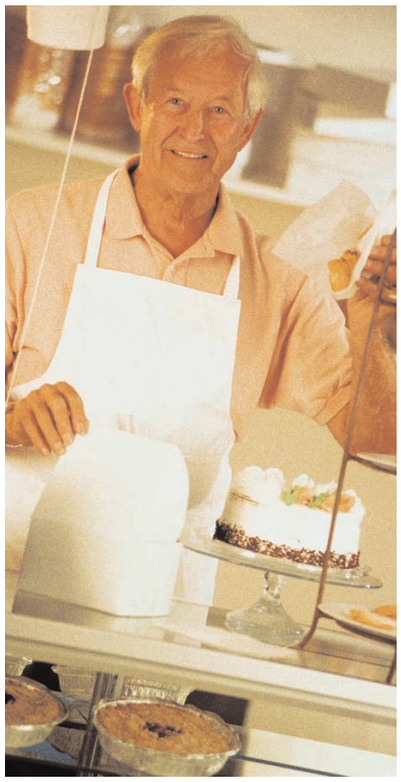
A "Hazard Communication Program"

If you are not sure if your business is covered by the law or to obtain specific information on the requirements for developing a "Hazard Communications Program," you should contact the U.S. Department of Labor, Occupational Safety and Health Administration (OSHA), 1999 Broadway, Suite 1690, Denver CO 80202, (303) 844-1600.

The Americans with Disabilities Act (ADA)

The ADA extends civil rights protection to individuals with disabilities that is similar to that provided to individuals on the basis of race, sex, national origin, and religion. For small businesses, it guarantees equal opportunity for individuals with disabilities in employment and public accommodations. In the area of employment, the ADA is not an affirmative action program. Businesses must provide equal opportunity for employment to all qualified disabled individuals who can perform the essential duties of a job. Businesses may be required to make reasonable accommodations that are readily achievable and do not cause a financial-hardship on the employer. The Job Accommodation Network (JAN) has been established to assist employers find low cost solutions and resolve employment accommodation problems. Call 1-800-526-7234 for free assistance.

FOR FURTHER INFORMATION ON WORKERS' COMPENSATION LAWS, CONTACT THE COLORADO DIVISION OF WORKERS' COMPENSATION AT (303) 318-8700



Public firms of any size that operate facilities such as restaurants, hotels, theaters, convention centers, retail stores, shopping centers, dry cleaners, laundromats, pharmacies, doctors' offices, hospitals, museums, libraries, parks, amusement parks, private schools, day care centers, health spas, bowling alleys, and gas stations, may not discriminate on the basis of disability. Physical barriers must be removed if removal is readily achievable. If not, alternative methods of providing services must be offered, if those methods are readily achievable. "Readily achievable" is defined as actions that are easily accomplished and able to be carried out without much difficulty or expense. The courts are required to take into consideration the nature and size of a business in order to determine whether an action is readily achievable. The Architectural Access Board has established detailed guidelines for construction and remodeling. Call 1-800-USA-ABLE (1-800-872-2253) for free assistance.

The Rocky Mountain Disability and Business Technical Assistance Center, located in Colorado Springs, is one of 10 regional centers funded by the National Institute on Disability and Rehabilitation Research, a division of the U.S. Department of Education. Its mission is to provide technical assistance, materials, training and referrals on the Americans with Disabilities Act for individuals and organizations in Colorado, Montana, North Dakota, South Dakota, Utah and Wyoming. For more information contact the Rocky Mountain DBTAC at 3630 Sinton Road, Ste. 103 Colorado Springs, CO 80907, 1-800-949-4232 (voice, TTY) or visit its website at www.ada-infonet.org

EMPLOYER SUMMARY

Responsibilities

- Determine whether your workers will be employees or independent contractors.
- Establish clear personnel policies to address issues such as working hours, compensation, fringe benefits, grievances and terminations.
- File the Application for Employer Identification Number, Form SS-4, to obtain your Federal Employer Identification Number (FEIN).
- File the Colorado Business Registration Form CR100, to open your state wage withholding and separate unemployment insurance accounts. You will receive preprinted coupons and information on how to file Colorado wage withholding from the Department of Revenue. The Department of Labor and Employment will send information on how to file Colorado unemployment insurance. You will receive preprinted forms to file unemployment insurance each quarter. These two separate packets of information should arrive approximately four to six weeks after filing the CR100.
- Submit a copy of the W-4 for all newly hired employees to the Colorado State Directory of New Hires within 20 day of hire date.

To mail in New Hire Reports:
State Directory of New Hires
P.O. Box 2920
Denver, CO 80201-2920

To fax New Hire Reports:
(303) 297-2595

- Obtain workers' compensation insurance for your employees. Workers' compensation is obtainable from private insurance carriers. As with any other form of insurance, you should shop around for the best price and service.
- Obtain the proper employer posters. Use the chart in this chapter as a guide.
- Determine whether you are responsible for any local employer tax or registration requirements by contacting the appropriate local authorities.
- Establish the proper safety procedures and maintain the necessary records to satisfy the requirements of the Occupational Safety and Health Administration (OSHA). If you routinely work with "hazardous substances," ensure that you have implemented a hazard communication program.
- Comply with the Americans with Disabilities Act (ADA) to avoid discrimination in your employment practices regarding persons with disabilities.

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1600 Stout Street, Suite 2000
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It is imperative that you establish a record-keeping system before the doors of your business open. Accurate books and records are essential for business planning and useful to management in making informed decisions. DON'T WAIT until it's too late and GET HELP if you need it.

BASIC RECORD KEEPING

The record keeping needs of your business must be analyzed to determine the best bookkeeping system. All systems should provide the following information:

- Detailed operating statements
- Comparison of current results to budgets and prior periods
- Financial statements
- Information for tax returns and reports to regulatory agencies
- Sufficient control to protect assets and detect errors

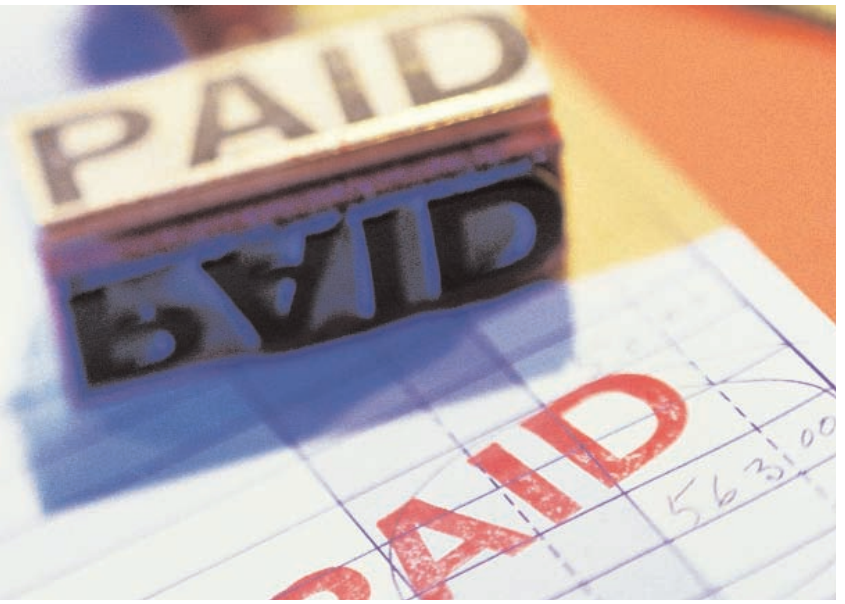
Each business has special needs that must be considered when establishing a bookkeeping system. Factors you should take into account include: legal structure of your business, your industry, the number of employees you have, the number of product lines or services and the number of locations your business operates.

The first step in setting up a bookkeeping system is the selection of the tax year or year end. The term "tax year" refers to the annual accounting period. The selection of a tax year is sometimes dictated by your legal structure. For instance, a C Corporation has no specific restrictions. However, S Corporations, sole proprietors and partnerships must usually follow a calendar year. Be sure to consult an expert before making a decision, since tax laws are subject to change. The second step is to select the method of accounting. The most common are the cash method and the accrual method. The cash method recognizes income and expenses when the cash is received or disbursed. It provides the most flexible means for deferring taxable income into future tax years. The accrual method recognizes income and expenses based on when income is earned or an obligation to pay a debt is incurred. It generally provides better matching of revenue and expenditures.

The method of accounting that will be best for you will be determined by your business operations. While these are the two most common methods of accounting, there are specialized methods that may be used in certain industries. You may want to consult a tax advisor to determine the best method for your business. Once a method of accounting is adopted on the initial tax return, it can be changed only with the permission of the IRS. Permission is usually granted if switching from the cash method to the accrual method, and routinely denied for the reverse, although recent developments have facilitated the accrual and cash change.

The proper accounting method and maintenance of your records will help:

- Correctly measure the profitability, growth and changes in your business
- Keep track of transactions with other businesses
- Supply present or future lenders with accurate financial information
- Support taxable income calculations
- Evaluate cash flows
- Provide reports on inventory turnover, return on capital, etc.
- Provide comparison with industry averages and regulatory reporting



THE RECORD KEEPING NEEDS OF YOUR BUSINESS MUST BE ANALYZED TO DETERMINE THE BEST BOOKKEEPING SYSTEM.

There are two basic mistakes that many business owners make when setting up their bookkeeping. One, the owner doesn't understand the importance of proper records and ignores the need to establish a record keeping system. Such business owners tend to use the "shoebox method" as they allow receipts, invoices and bills to accumulate in boxes or piles. The second mistake is overkill. The owner invests in an expensive array of hardware and software to maintain his/her records which ends up being too complicated to use. This should not imply that comput-

ers are ineffective tools in a bookkeeping system. Rather, it is important to invest in a system that can be easily operated and that meets the needs of your business.

Monitor Your Cash Flow

Cash is absolutely critical to the growth and well-being of your business. You must plan and prepare for all future events and market changes. The most important aspect of planning and bookkeeping is effective cash flow management. Failure to properly plan cash flow is a leading cause of business failure. Understanding your cash flow is important for five reasons.

- First, you will need cash to pay your fixed costs, such as rent, utilities, credit payments, etc.
- Second, most businesses have seasonal cycles. For example, a retail business will probably have increased sales around Christmas; however, this will require a build up in inventory in the fall when sales and cash flow may be slower. It is important to set aside funds for these changes in revenue and inventory.
- Third, it is important to save for long-term investment and capital purchases such as a new vehicle or a piece of equipment.
- Fourth, you must have cash available, or a sufficient line of credit, for all emergency situations.
- Fifth, pay attention to the impact of necessary tax payments.

Failure to properly plan for all five will damage both the short-term and long-term potential of your business. For example, you must frequently keep inventory on-hand in anticipation of potential clients or you must purchase supplies for a contracted project weeks or even months before you receive payment for these goods. While it is important to have the necessary cash available to pay your bills, regardless of when your clients pay you, excess cash may be an indication of "idle money" with a potential for a greater return if invested in another part of your business.

Credit Sales

Credit plays an important role in your cash flow – both the credit you receive from your suppliers and the credit you extend to your clients. If you do not pay your debts in a timely manner, it can reduce your access to credit in the future. Limiting your clients' ability to purchase on credit increases your short-term cash flow but may limit your customers' ability to make long-term larger purchases. A liberal credit policy can increase your sales. However, the increase in sales must be balanced against the cost of administering a credit program including collections and bad debts.

If you sell on credit, establish a credit policy and stick to it! It is important that your customers sign a contract or a credit application. State when interest will begin to accrue and disclose the specified interest rate and terms for balance due. Clearly disclose your right to sue or arbitrate in your home county. The contract should state that you are entitled to recover attorney fees and court costs.

Consider offering a discount for businesses that pay by cash or within x number of days of invoice. This may slightly reduce your revenue but will ultimately increase your cash flow as it encourages customers to pay in a more timely manner, and reduces the cost of administering your accounts receivable and the level of unpaid accounts.

You must register as a finance company if you extend credit to your non-business customers. Registration is completed through the Uniform Consumer Credit Code (UCCC), Colorado Office of the Attorney General, 1525 Sherman Street, 5th Floor, Denver, CO 80203, (303) 866-4494, Fax (303) 866-5691. Credit sales between two businesses are considered private contractual agreements and are not subject to the UCCC.

Credit cards are another alternative. You may be required to be in business for a period of time before you will be able to accept major credit cards. Credit cards are normally processed by banks. Contact your bank for more information on credit card policies or for a referral to a credit card processing service. Credit card processors collect a fee for processing credit card payments, usually a percentage of the sale which obviously reduces your cash flow. Take care to shop and compare the costs of these services.

BOOKKEEPING VOCABULARY

Accounts Payable: A record of amounts owed by your business to creditors.

Accounts Receivable: A record of amounts owed to your business by customers.

Balance Sheet: A statement which states the balance in all accounts on a specific date.

Chart of Accounts: Serves as an index to the general ledger.

Fixed Ledger Assets: Contains records for all real and personal property owned by the business.

General Ledger: Contains balances of all accounts held by the business.

Income Statement: A statement which summarizes revenue and expenses for a specific period.

Journal and Cash Disbursements: A record of written checks.

Payroll Register: Summarizes payroll data, including wage withholding, FICA, and unemployment insurance taxes.

Purchases Journal: Includes information on materials purchased.

Sales and Cash Receipts: Used to record all incoming cash.

Pricing and Sales Strategies

Your pricing strategy is an important part of your firm's cash flow and profitability. You must clearly understand your market, the competition and your customers to determine the proper price for your products or services. See the Marketing chapter of this Guide for more information. A common mistake is to simply track and focus all efforts towards

SELLING YOUR BUSINESS

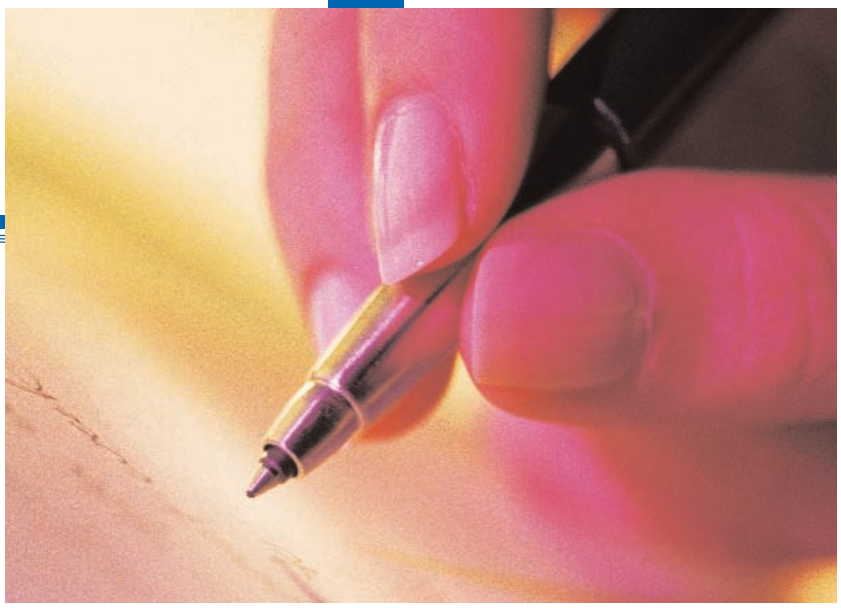
All things, good and bad, eventually come to an end. Business owners choose to close and sell their businesses for a variety of reasons including: retirement, partnership disputes, boredom, illness or death, and lack of profitability. Selling your business will affect your income as well as your lifestyle. Closing and selling a business should be a planned event. Planning puts you in the leadership role.

Nearly every business uses accounting practices that will reduce the owner's tax liabilities. Unfortunately, the same practices also reduce the value of the business. Income is the principal factor in determining the value of a business. Whenever possible, plans to sell a business should begin three to five years prior to the actual sale. This will permit the time required to make necessary changes in accounting practices that demonstrate a record of maximum profits. Make certain that your financial records are accurate and presentable. Remember that CPA-prepared financial statements are a key tool in demonstrating the value of your business. Equally important as clean financial records are clean facilities and equipment. Be certain that inventory is properly stocked and current and that equipment is in working order.

Develop a comprehensive business presentation package for your business. This package is the business' resume and should include: a current business plan and valuation report, business history, operational and organizational outlines, description of facilities, review of market practices, personnel overview, explanation of insurance coverage, pending legal matters, and a compendium of 3 to 5 years of financial statements.

The valuation report should contain a professionally prepared appraisal, which will eliminate the guesswork of pricing your business. If you pick a price out of the air and do not have the profits, inventory and equipment to back it up, you will sell your business for less than its market value, or it will be overpriced and not sell. A professional business broker is also a resource for valuing your business based upon your industry and location.

increased sales. While this might appear to increase cash flow - be careful. If your customers purchase on credit, you may simply reduce inventory without any cash to replenish stock for the next customer. Another problem occurs when sales increase beyond your capacity to satisfy your customers in a timely fashion. As a result, your sales increase in the short term, but your customers are less likely to provide repeat business or give you positive referrals. Remember, more sales don't always equal more profit!



Who Should Keep the Records?

There are several options:

- **Keep Them Yourself:** This should be the choice if your business is extremely simple, has few employees, a single location, few products or services, and if it requires only a small part of your time or if you have a strong background in accounting principles.
- **Bookkeeper/Accountant Employee:** If your basic bookkeeping system is simple and you require few or infrequent financial reports, a bookkeeper may be all that you need. The more complex the needs of your business, the more likely you will require an accountant. Both bookkeepers and accountants can be hired as employees or independent contractors depending upon the type and amount of assistance desired/or needed
- **Bookkeeping/Accounting Services:** These services usually compile receipts, canceled checks and invoices, then process the data and prepare financial statements. This type of service is used when the business is more complex and requires a more sophisticated method for maintaining records, but can be cost effective when compared to an employee.
- **A Computer:** While a computer installed with a user-friendly bookkeeping computer program can be a very important and useful tool, it does not replace self-education or the services of a bookkeeper or accountant.

LOCAL SBDC OFFICES IN COLORADO

Small Business Hotline	(303) 592-5920
Alamosa	(719) 587-7372
Boulder	(303) 442-1475
Colorado Springs	(719) 262-3844
Delta	(970) 874-8772
Denver	(303) 620-8076
Durango	(970) 247-7009
Fort Collins	(970) 498-9295
Fort Morgan	(970) 542-3263
Glenwood Springs	(970) 384-8522
Grand Junction	(970) 243-5242
Greeley	(970) 352-3661
La Junta	(719) 384-6959
Lakewood	(303) 233-5555 x1202
Pueblo	(719) 549-3224
South Metro Denver	(303) 548-5300
Trinidad	(719) 846-5644
Westminster	(303) 460-1032

www.coloradoSBDC.org

OFFICE OF ECONOMIC DEVELOPMENT AND INTERNATIONAL TRADE (OEDIT)

The mission of the Office of Economic Development and International Trade (OEDIT) is to foster a positive business climate through financial and technical assistance for local and regional economic development activities throughout Colorado.

The Office of Economic Development and International Trade works with business owners starting, expanding or relocating in/to Colorado. OEDIT offers a wide range of services to assist new and existing businesses of every size. The services focus on making Colorado the premier business climate for: quality jobs, excellent infrastructure, exceptional environment, superior education system and workforce training, reasonable taxes and regulatory climate, quality of life and entrepreneurial opportunity and success. The following programs are offered by OEDIT. www.advancecolorado.com

Small Business Development Center (SBDC) Network

The SBDC network is dedicated to helping small businesses throughout Colorado achieve goals of growth expansion, innovation, increased productivity, management improvement and success. The SBDC network combines information and resources from federal, state and local government with those of the education system and the private sector to meet the specialized and complex needs of the small business community. Regulatory, management, financial and marketing experts work in partnership to provide entrepreneurs with crucial information that can mean the difference between success and failure. This partnership includes the State of Colorado, the U.S. Small Business Administration, Colorado's institutions of higher education, local economic development organizations and local chambers of commerce.

The Colorado SBDC operates the SBDC Small Business Hotline (303) 592-5920. The hotline serves as the first point of contact for information regarding federal, state and local licensing requirements for starting a business. This office provides referrals to a variety of federal, state, local small business training, counseling and assistance programs. Sixteen community-based SBDC service centers provide free one-on-one counseling services in the areas of business research, marketing, new business feasibility analysis, business plan preparation, finance packaging and other small business topics. Local SBDCs offer low-cost workshops and seminars for business owners and act as information clearing houses. Individual local offices also specialize in international trade, government procurement, manufacturing, home-based business and technology resources. The Colorado Leading Edge entrepreneurial training program assists businesses in completing a comprehensive business plan. The primary emphasis of the Leading Edge program is to provide assistance to established business owners. However, new and prospective business owners are also encouraged to participate in training programs. www.coloradoSBDC.org

Colorado Buisness Resource Center (CBRC) is a program under the SBDC that provides county specific information for start up businesses. For more information call (970) 339-6427.

The Minority Business Office (MBO)

The Minority Business Office (MBO) acts as an advocate for Colorado's Minority Business community. Services include the provision of training seminars, conferences or workshops, and the identification of procurement opportunities within both the public and private sector. The MBO collaborates with other state agencies, the private sector, and various organizations to expand economic opportunities for minorityowned businesses. The MBO also works with regional business councils throughout the state to ensure that all programs address the needs of minority business owners. For more information visit: www.advancecolorado.com/mbo.

International Trade Office (ITO)

The International Trade Office (ITO) is part of the Colorado Office of Economic Development and International Trade. ITO is located at 1625 Broadway, Suite 1700, Denver, CO 80202. The Trade Office assists Colorado companies sell products and services to international markets and encourages foreign investment in Colorado to create jobs and strengthen Colorado's economy. Specialists offer export counseling in a variety of areas including sales and marketing, foreign contacts, and shipping and documentation. Staff members speak at seminars across Colorado on export-related topics. ITO also provides opportunities for Colorado companies to expand their businesses internationally through trade missions and participation in major foreign trade shows, and helps foreign buyers find suitable Colorado products and services. The International Trade Office has representative offices in Japan, Germany and Mexico that work with export promotion and investment. For more information call (303) 892-3850 or contact the website: www.advancecolorado.com/ito

Advance Colorado Center

The Office of Economic Development and International Trade (OEDIT) is pleased to announce the formation of a unique development venture, the Advance Colorado Center (ACC). The ACC will provide a common headquarters for a number of business development and high-tech associations. The creation of the ACC is one of several initiatives that OEDIT is undertaking to support its overall mission of creating a robust and enduring state economy and maximizing the Colorado brand through communication, integration and culture. The first tenants include:

CTEK: Expert financial and business volunteers mentor entrepreneurs working with innovative technologies. www.ctek.biz

Colorado Film Commission: Stimulates and supports growth of all segments of the Colorado film and video industry. Promotes the state as a competitive location for filming. www.coloradofilm.org

Colorado Software & Internet Association: Fosters innovation and growth for the technology industry in Colorado. www.coloradosoftware.org

Colorado BioScience Association: Grows the state's bioscience workforce, provides networking opportunities, educational and technical programs, created corporate partnerships and finds investors. www.cobioscience.com

Colorado Environmental Business Alliance: Promotes Colorado as a center for environmental commerce and sustainable technologies. www.ceba.org

CAMI: (Colorado Association of Microenterprise Initiatives) Statewide alliance or organizations with a misson to support self employment in microenterprise development for self sufficiency. www.coloradoalliance.org

Business Development Recruitment and Retention

Assistance is provided to new and existing companies looking to expand or relocate in Colorado. Business Development Representatives (BDRs) provide a variety of technical and financial assistance services including assistance with site selection, research on economic conditions and comparisons and coordination with local and regional economic development agencies and services. BDRs also act as liaisons with state regulatory programs.

Marketing activities are conducted nationwide to promote sectors of the Colorado economy that are growing and provide high quality jobs. Marketing activities include attendance at selected trade shows, company visits, cooperative marketing with local enterprise zones, and community economic development councils and industry research. The Colorado "Data Book," at www.advancecolorado.com is published annually by OEDIT and includes statistics and comparisons of key indicators to evaluate Colorado's economic climate and to provide information of special interest to the business community. Other services provided are:

- **Community Development Block Grants (CDBG):** These grants are provided to the State of Colorado by the U.S. Department of Housing and Urban Development (HUD). In turn, OEDIT uses these funds to assist rural communities with their economic development efforts. Businesses receiving CDBG assistance are required to create or retain jobs for low- and moderate- income persons. In some situations, businesses may be eligible if the owner of the business is of low- to moderate-income and the business qualifies as a microenterprise. OEDIT uses these funds to further economic development in two ways: First, the CDBG Infrastructure Program in support of a specific business or businesses. Local government-sponsored projects may generally recieve infrastructure grants of up to $500,000. Local matching funds may be required. Second, OEDIT provides financial resources to 15 regional Revolving Loan Funds (RLFs), which use the funds to make loans to businesses within their service areas. The RLF programs are available locally, each with its own loan review committee and Board of Directors. The RLFs have considerable flexibility to make small loans from a few thousand dollars up to $250,000. In some cases, loans greater than $250,000 have been approved. For both the Infrastructure and RLF Programs, applicants can be existing or start-up businesses. OED & IT and, when appropriate, the Governor's Financial Review Committee reviews and approves all requests for funding. **NOTE:** The state's CDBG program does not cover any of the metropolitan areas of Colorado (known as "entilement" areas), because those areas receive their own allocation of CDBG funds directly from HUD. For more information on the CDBG progams, please contact OEDIT's Finance Staff at (303) 892-3840, or for loans, contact the RLF in your service area directly (see RLF listings).

- **The Colorado First and Existing Industries Job Training Programs:** These programs assist employers with customized job training. Assistance is provided to new and existing businesses to retain workers and improve their workplace skills.

The goal of the Colorado First Program is to assist companies in training employees to fill newly created permanent, full-time quality jobs. Training has been provided to over 40,000 employees since 1986. For more information regarding the Finance and Business Development programs contact OEDIT at 1625 Broadway, Suite 1700, Denver CO 80202, (303) 892-3840.

THE SMALL BUSINESS ADMINISTRATION (SBA)

The SBA provides most business counseling and training programs through its various resource partners. The agency's main mission is to help entrepreneurs start, grow and expand their businesses. SBA helps to build communities one small business at a time. Below is a listing of SBA's business counseling and training programs available in Colorado.

SCORE

SCORE, Counselors to America's Small Business, is a 11,000-member volunteer program, sponsored by the U.S. Small Business Administration. There are over 150 members throughout Colorado. The program matches experienced volunteers with small businesses that need expert advice. These men and women business executives, whose collective experience spans the full range of American enterprise, share their management and technical expertise with present and prospective owners/managers of small businesses. The SCORE chapter in Denver runs four workshops entitled Starting Your Business, Expert Advice, Promoting Your Business and Writing a Business Plan. For additional information on SCORE or to locate your nearest SCORE office, call the SBA at (303) 844-3985. The Denver Chapter's website can be accessed at www.score.denver.org

Women's Business Center

The Women's Business Center (WBC) in Colorado is located at three Mi Casa Resource Center locations in Colorado. These locations are Pueblo, Denver and Colorado Springs. The purpose of the WBC is to promote the growth of women-owned businesses through programs that address business training, technical assistance, access to credit, federal contracts, and international trade opportunities. The programs offered by Mi Casa are based on the needs of the small business community. For more information call 303-573-1302 or go to www.micasadenver.org.

Women with Disabilities Self-employment Project

Women with work disabilities experience economic hardships out of proportion to their representation in the population. Their unemployment rate exceeds that of men with work disabilities and women with no disabilities, and their representation in the poverty population is equally dismal. Studies document that the road to self-sufficiency and out of poverty is often business ownership. Women with disabilities are not less interested in taking this route. The Small Business Administration has embarked upon a nationwide series entitled "Tools for Self Employment for People with Disabilities." It has been documented that more than half of those attending these workshops are women with disabilities.

The Women's Bureau, U.S. Department of Labor, developed a project to facilitate the dream of women with disabilities wanting to start their own business. Over a two-year period, contractors chosen in four regions recruited, trained and provided mentoring services to assist women with disabilities to become business owners. By the end of the first phase, the Denver Region helped 10 women become business owners. Now in the second phase, the project contractors are looking for 18 women with severe disabilities to participate in the project. They will receive multi-week training on how to become an entrepreneur, life-skills training, technical assistance for obtaining loans and/or grants for the purpose of starting or expanding their business, and the benefit of a mentoring relationship and/or participation in support-group activities with other women entrepreneurs.

Call Catalyst Resources Inc. at (303) 455-3099, or toll free (888) 382-6730, for more information or to enroll in the program.

LOCAL SCORE CHAPTERS

Colorado Springs www.coloradospringsscore.org	(719) 636-3074
Denver www.scoredenver.org	(303) 844-3985
Grand Junction	(970) 242-3214
Pueblo www.puebloscore.org	(719) 542-1704
Ernestine Wardlaw-Thomas, SCORE District Director	(719) 544-9010

SBA OnLine (www.sba.gov)

This website provides fast and easy help on all services provided by the SBA. SBA OnLine services include: SBA publications, access to SBA programs and services, points of contact, calendars of local events, on-line training, access to other federal agency on-line services and data, electronic and Internet mail, information exchange by special-interest groups, and downloadable files. SBA's home page is located at www.sba.gov

SBA's Office of Advocacy

Office of the Regional Advocate

This advocate serves as the SBA Chief Counsel's direct link to local communities. Regional advocates monitor the impact of federal and state regulations and policies on communities within their regions. They also work with state officials to develop policy and legislation that shape an environment in which small companies can prosper and grow. Contact SBA's Region Eight Advocate in Denver by calling (303) 844-0503. Visit its website at www.sba.gov/advo.

Small Business Regulatory Enforcement Ombudsman

The ombudsman receives comments from small businesses about the regulatory enforcement and compliance activities of federal agencies and refers comments to the appropriate agency's Inspector General on a confidential basis. It also coordinates

the efforts of the 10 small business regulatory fairness boards and reports annually to the SBA Administrator and to the heads of the affected agencies on the boards' activities, findings, and recommendations. Call 1-888-REG-FAIR or visit SBA's website at www.sba.gov/ombudsman

SBA Disaster Assistance Program

The SBA Disaster Assistance Program, administered by the Office of Disaster Assistance, is the primary federally funded disaster assistance loan program for funding long-range recovery for private sector, nonagricultural disaster victims. In addition to presidential declarations, the program handles disaster loans when a declaration is made by the SBA Administrator. There are three disaster loan programs: loans for homes and personal property, physical disaster loans to businesses of any size, and economic injury loans to small businesses without credit available elsewhere. For more information, visit SBA's home page at www.sba.gov/disaster

U.S. Export Assistance Centers (USEAC)

USEAC combines the trade-promotion and export-finance resources of the SBA, the U.S. Department of Commerce, the Export-Import Bank and, in some locations, the Agency for International Development. Designed to improve delivery of services to small- and medium-sized businesses, USEACs work closely with other federal, state and local trade partners in your area. Colorado's USEAC is located in Denver at the World Trade Center Building, 1625 Broadway, Suite 680 or call (303) 844-6623. Its webpage is located at http://www.usatrade.gov

SBA's Surety Bond Guaranty Program

This SBA program guarantees bid, performance and payment bonds for contracts up to $2 million for eligible small businesses that cannot obtain surety bonds through regular commercial channels. By law, prime contractors to the federal government must post surety bonds on federal construction projects valued at $100,000 or more. In addition, many states, counties, municipalities, and private sector projects and subcontracts also require surety bonds. Contractors must apply through a surety bonding agent, since the SBA's guaranty goes to the surety company. For more information on the SBA's Surety Bond Guaranty Program Office, call (303) 844-2607 ext. 261.

COMPUTERIZED INFORMATION RESOURCES

Colorado Home Page

Anyone with access to the Internet can obtain Colorado state information at www.colorado. gov. The Colorado home page contains useful information about services and regulatory responsibilities of all state agencies. As a small business owner and/or a general taxpayer, this resource will allow you to download federal and state publications and applications for registration purposes and updates you on Colorado's tourism. The most current edition of the complete Business Resource Guide and the licensing database is also online. These publications provide links to economic development, federal, state and local programs for assistance with questions on licensing, permitting, registration, etc.

Business.gov

Business.gov is a website designed to help small businesses find, understand and comply with the federal, state and local laws and regulations that impact their operations. Business.gov will also reduce for small business some of the hassle with regulatory issues. Business.gov is intergovernmental. Users can educate themselves on the state and local laws where they operate, including those dealing with hiring and managing employees, taxes and zoning. Small businesses can apply online for licenses and permits in several states. Go to www.business.gov for more information.

This website provides a one-stop electronic link to the government's business information and services. With the website, small businesses no longer have to contact dozens of agencies and departments to access applicable laws and regulations, or figure out on their own how to comply. They can download business forms and conduct a myriad of other business transactions through this web site. The website is www.business.gov

PROCUREMENT AND TECHNICAL ASSISTANCE PROGRAMS

Office of Certification

The Office of Certification administers the Colorado Disadvantaged Business Enterprise (DBE) Certification Program. This certification process determines the eligibility of minority and women-owned businesses to participate as DBEs on projects for the Colorado Department of Transportation, Regional Transportation District and the Denver Water Board. For more information call (303) 894-2355.

Small Disadvantaged Business Program (SDB)

SBA certifies SDBs to make them eligible for special bidding benefits. Evaluation credits available to prime contractors boost subcontracting opportunities for SDBs. Under federal procurement regulations, the SBA certifies SDBs for participation in federal procurements aimed at overcoming the effects of discrimination. SBA certifies small businesses that meet specific social, economic, ownership, and control eligibility criteria. Once certified, the firm is added to an online registry of SDB-certified firms maintained in PRO-Net. Certified firms remain on the list for three years. Contracting officers and large business prime contractors may search this online registry for potential suppliers. See SBA's home page located at www.sba.gov/sdb/

SBA's 8(a) Business Development Program

The 8(a) program assists the development of small firms owned and operated by individuals who are both socially and economically disadvantaged. By

extending government contract preferences and other business development support, it helps these firms gain access to the economic mainstream. Typically a small business must have been in operation for at least two years before applying to this program. Contact the SBA's Colorado District Office at (303) 844-2607 ext. 224 for more information.

Mid-America Manufacturing Technology Center (MAMTC)

The Mid-America Manufacturing Technology Center (MAMTC) helps small, medium and start-up manufacturers improve manufacturing competitiveness. MAMTC is a nonprofit organization created to help manufacturers become more competitive by improving quality, boosting sales and productivity and reducing costs. It is the result of a partnership between the University of Colorado at Boulder and the National Institute of Standards and Technology. There are field engineers in five offices across Colorado who have five to thirty years each of practical and related manufacturing experience. MAMTC staff may apply their own expertise to solve problems or draw on the services of universities, federal laboratories, community colleges, economic development specialists or private consultants to deliver these services. From hands-on consulting to seminars and workshops, MAMTC provides low cost solutions that can be measured in bottom line benefits. Services provided by MAMTC include:

- waste, energy and OSHA audits
- bar coding
- industrial engineering projects
- total quality management assistance
- plant layout consulting
- product/processing testing & analysis, and
- software systems recommendations.

For more information, contact the MAMTC office near your business: Boulder (303) 499-9081 Fort Collins (970) 689-0887 Grand Junction (970) 255-2802.

Hazardous Materials and Waste Division

This office provides business owners with the permitting requirements under various environmental compliance programs. For more information call the Colorado Department of Public Health's Technical Assistance line at (303) 692-3320.

FEDERAL GOVERNMENT INFORMATION

A large amount of federal information from the U.S. government is available via the Internet. Two excellent indexes to federal Internet information are the U.S. Business Advisor and Fedworld located at www.business. gov and www.fedworld.gov respectively. Both indexes can be used to locate information from a variety of federal agencies.

- The U.S. Small Business Administration's (SBA) home page is found at www.sba.gov The SBA home page provides information on SBA financing and counseling services nationwide.
- The SBA's on-line Women's Business Center is a free, interactive training site for women on the web. You can reach this page at www.onlinewbc.org
- The IRS is located at www.irs.gov. Federal income tax forms can be downloaded from that site. You can also order the Small Business/Self-Employed Tax Calendar CD-ROM, Introduction to Federal Taxes CDROM, Virtual Small Business Workshop CD-ROM, and the Small Business Resource Guide CD-ROM by calling 1-800-829-3676.
- The Environmental Protection Agency (EPA) provides environmental information and assistance at www.epa.gov

Taxpayer Education and Communication (TEC)

The mission of TEC is to educate and inform Small Business and Self-employed (SB/SE) taxpayers and representatives

INFORMATION AND APPLICATIONS ARE AVAILABLE ON THE INTERNET!

Here are some informative sites:

State Home Page
www.colorado.gov
This page links you to the Secretary of State, Department of Revenue forms, demographic information, State procurement and much, much more.

SBDC Small Business Hotline
(303) 592-5920

Colorado SBDC Home Page
www.coloradosbdc.org

Advance Colorado Center
www.advancecolorado.com

SBA Home Page
www.sba.gov

U.S. Business Advisor
www.business.gov

Fed Stats — Federal Government Statistics
www.fedstats.gov

NAICS Codes
www.census.gov/epcd/www/naics.html

Law Research
www.lectlaw.com

IRS Research
www.irs.gov

Business Law Information
www.businesslaw.gov

Federal Government Research
www.firstgov.gov

about their obligations by developing educational products and services focused on customer needs and by providing top quality pre-filing service to help taxpayers understand and comply with the tax laws. TEC has many CD-ROMs and publications to assist small business owners with their tax obligations. A list and description of items available can be found at the IRS website, www.irs.gov under TEC Outreach Products.

ACCESS COLORADO LIBRARY AND INFORMATION NETWORK (ACLIN)

ACLIN is a project of the Colorado library community. It provides access to state library information resources to support education, business, health, social service and personal growth activities of Colorado residents. It is a statewide library computer network that:

- Links the automated systems and online catalogs of participating libraries in a single network
- Includes academic, public, private and specialized (medical, legal, etc.) library participants
- Provides access to over 175 library catalogs, that list over 11 million books, as well as 22 other information databases
- Connects users via a single phone call, local or toll free, using a microcomputer and a modem from home, office, school or library.

ACLIN can be accessed via the Internet at www.aclin.org. At the first prompts (aclin.org and user name) type ac in lower case letters, press the return key, then follow the online instructions. If you have a modem but do not have Internet access, use the local access number for your area. If you are outside a local calling area, call 1-800-748-0888. **NOTE:** If you attempt to use the 800 number from an area with a local number your call will be blocked. For more information about ACLIN, contact your local public library or the Colorado Department of Education, ACLIN, 201 East Colfax Avenue, Room 309, Denver, CO 80203, (303) 866-6939.

BUSINESS RESEARCH AND INFORMATION NETWORK (BRAIN)

The BRAIN is a direct computer link through the NASA Industrial Application Center to 1,800+ national and international database files. The CU Business Advancement Center (CUBAC), the operator of BRAIN, is a business research, information and technology commercialization center of the University of Colorado at Boulder. It provides access to business, market and technical information from hundreds of public and private resources. For more information contact CUBAC at 5353 Manhattan Cr., Suite 202, Boulder, CO 80303, (303) 554-9493 or visit their web address at www.colorado.edu/cubac/

SBA's Small Business Innovation Research Program (SBIR)

The SBIR provides a vehicle for small businesses to propose innovative ideas in competition for Phase I and Phase II grant awards, which represent specific R&D needs of the participating federal agencies. These awards may result in commercialization of the effort at the Phase III level. This program is administered by the SBA's Office of Technology. Currently, there are ten participating federal agencies with $100 million in extramural R&D budgets. For more information go to www.sba.gov/SBIR or call the Small Business Administration at (202) 205-6450

SBA's Small Business Technology Transfer Program (STTR)

STTR requires each small firm competing for an R&D project to collaborate with a nonprofit research institution. This program is a joint venture from the initial proposal to the project's completion. The program is administered by the SBA's Office of Technology. Currently, there are five federal agencies with extramural research and R&D budgets of $1 billion: NASA, the National Science Foundation, and the Departments of Defense, Energy, and Health & Human Services. For more information go to www.sba.gov/SBIR

JOB TRAINING PROGRAMS

Colorado Community Colleges and Occupational Education System

Colorado offers a wide variety of education and training programs for youth and adults through the Colorado Community College and Occupational Education System. The system provides training in more than 400 specific occupations ranging from basic entry level skills to highly technical positions. It also provides industry specific training programs to entry level employees and helps current employees upgrade skills. Additional information is available through the Small Business Development Centers and the community colleges listed below:

- **Aims Community College,** Greeley (970) 330-8008 x6251 www.aims.edu
- **Colorado Northwestern Community College**, Rangely (970) 675-2261 or 1-800-562-1105 www.cncc.edu
- **Emily Griffith Opportunity School**, Denver (303) 575-4700 www.egos-school.com
- **Front Range Community College**, Ft. Collins (970) 226-2500 www.frontrange.rightchoice.org
- **Mesa College Area Vocational Technical School,** Grand Junction (970) 248-1020 www.mesastate.edu
- **Northeastern Junior College**, Sterling (970) 521-6600 or 1-800-626-4637 www.nejc.cc.co.us
- **Otero Junior College**, La Junta (719) 384-6831 www.ojc.edu

A complete list of Colorado's community Colleges can be found at www.rightchoice.org

Colorado Department of Labor and Employment (DOLE)

The DOLE operates a statewide network of Workforce Centers (WCs) providing a number of free employer services including:

- **Screening and Referral:** Employers may list their job openings with a local WC and obtain assistance with screening and referral of qualified applicants. Interviewers will match experience and capabilities with the job requirements specified by the employer. Employers make the actual hiring decisions.
- **Mass Recruitment:** Employers may take advantage of mass hiring services while expanding their businesses or newly locating in Colorado.
- **Affirmative Action Hiring:** Employers may list an Affirmative Action Job Order with a WC to assist in meeting affirmative action hiring goals.
- **Employer Roundtable Seminars:** Workshops are available to employers on a regular basis on topics such as unemployment insurance, workers' compensation, equal employment opportunity, etc. **NOTE:** Services not available at all Service Centers.
- **Layoff Assistance:** WC staff can assist employers who are about to lay off some or all of their employees with developing information packages, job search workshops and retraining referrals.
- **America's Job Bank:** Employers who wish to recruit nationally may have their requests posted at Workforce Centers throughout the United States and via the Internet. For location and phone number of the Workforce Center in your area call (303) 318-8000 or visit the Workforce website at www.americasjobbank. com.

LOCAL ECONOMIC DEVELOPMENT PROGRAMS

Business Incubators

Business incubators provide facility and management assistance for emerging growth companies. They offer new and existing companies affordable office, manufacturing or kitchen space, resource libraries, shared services and office equipment, meeting rooms and access to professional administrative services. The objectives of these centers are to stimulate small business growth, assist with the beginning stages of start-up, direct new businesses toward realistic and achievable goals and support cultural and neighborhood revitalization. Each center provides services to a very specific clientele. Business incubators are helping build healthy, lasting businesses and they are doing it for low cost and with a good return on investment to supporters. For more information and to check on space availability contact the incubator administrator in your area.

- CTEK (303) 546-9595
- Fremont Economic Development (719) 275-8601
- Denver - Enterprise Center/Kitchen Center (303) 296-9400
- Denver - Small Business Growth Center (303) 298-8371
- Colorado Venture Centers Inc. (303) 237-3998
- Grand Junction - Western Colorado Business Development Corporation and Commercial Kitchen (970) 243-5242
- Pueblo - Business & Technology Center (719) 546-1133
- Manitou Springs - Business of Art Center (719) 685-1861

Local Economic Development Offices (EDOs)

Economic development offices provide a variety of different services to the businesses in their areas, including: permitting assistance, relocation, demographics, site location information, counseling and support services. A few offices administer small loan programs. Some are agencies of local city or county governments. Some are independent, nonprofit organizations that receive funding from local governments and/or chambers of commerce. Contact the Small Business Hotline at (303) 592-5920 for the EDO nearest you.

Chambers of Commerce

Chambers of commerce provide a number of opportunities for business owners. Your local chamber of commerce is where you can meet and network with other business owners from your community. Some chambers provide additional services including counseling, training programs and guest speakers on useful business topics. Contact the Small Business Hotline at (303) 592-5920 for the phone number of the chamber of commerce in your community.

A GUIDE TO CHOOSING YOUR ADVISORS

Small businesses usually don't have the necessary capital to hire full-time experts to work within their organizations. In the beginning, you will probably not have all the necessary expertise either. Therefore, you may need to hire external professional services, such as marketing and management consultants, accountants, attorneys, engineers, graphic designers, technical consultants and others.

Some advisors, especially accountants and attorneys, are widely used by businesses of all sizes because of licensing and legal requirements. No business can function without maintaining financial records,

filing required reports, paying income and other taxes, or having complete financial records for use in dealing with banks, suppliers, investors, etc. who need to know the financial position of your business. You may also need legal advice concerning the legal structure of your business, contractual arrangements with suppliers and distributors, leases, litigation protection, etc.

While the services of attorneys and accountants may seem obvious, it does not diminish the need to select individual advisors carefully. You should choose your legal, accounting or other business advisors with great care, including checking for adequate credentials and references. Engineers, technical specialists and management consultants, as well as anyone else who provides specific specialized advice, should be carefully screened as well. The expertise that advisors bring to you should be verified also. If you decide you need an advisor, the following is a guide for selecting an advisor and to using his/her services.

Define What Type/Kind Of Advice You Think You Need

Advice may include general (legal, accounting, etc.) or specific (sales contract, audit, marketing analysis, technical consultation, etc.) By writing out your thoughts, you will be able to shorten your search time and reduce your costs.

List Potential Advisors

- Ask business associates and friends
- Ask your industry association or chamber of commerce
- Ask your current advisors (lawyer, accountant, banker, etc.) about other advisors
- Ask professional associations (CPA Society, Bar Association, etc.)

Screen Your List To Determine

- If they have expertise with similar businesses
- How long they have been in their business?
- What professional certification they have achieved?
- What references they can provide?
- What fees do they charge and how are they determined?
- How much time will they need to handle your project?
- When will they be available to do your work?

Verify Your Potential Advisors' Credentials

Conduct personal interviews. Make your decision based on the following:

- Are they knowledgeable about your needs?
- Do they have the necessary and professional credentials?
- Can they provide references?
- Have they demonstrated an ability to work within an organization without interrupting ongoing business or alienating employees?

SCORE HOLDS MONTHLY BUSINESS WORKSHOPS ACROSS COLORADO. CALL (303) 844-3985 FOR A SCHEDULE OF CLASSES.

- What rapport and trust have you developed with the potential advisor during your interviews, phone conversations and reference verifications?

Potential Advisors Should Submit A Written Proposal Which Outlines

- The objective and scope of the assignment
- The nature and form of the final report as well as an outline for completing the project, including progress reports
- A synopsis of what the advisor will do, what you and your business will do and provide, what work will be completed jointly
- The anticipated cost of the project (fees and expenses), and the terms of payment
- The conditions under which you and/or

ALL ADVISORS SHOULD BE CHOSEN WITH GREAT CARE, INCLUDING ADEQUATE CREDENTIAL AND REFERENCE CHECKING. LIST OF COMMON ADVISORS:

- Accountant
- Attorney
- Banker
- Insurance Agent
- Graphics/Publishing
- Marketing and Management Consultants

the advisor may cancel your agreement, including any liabilities or restrictions incurred by each party

Review The Proposal

With the advisor, review and resolve any outstanding questions or ambiguities before agreeing to proceed or sign any contract.

Cooperate With Your Advisor As Work Proceeds

- Inform your regular staff about details of the project in order to reduce anxieties and to ensure cooperation
- Be available to review progress, answer questions, clarify information and assist with roadblocks as the project progresses
- Don't try to short-circuit the work or change the agreed-upon work schedule. However, do insist upon timely completion of the project

Review The Finished Project

Ask yourself if you got what you wanted and requested.

Would You Hire This Advisor Again?

Obviously some types of advisory work can be evaluated more easily and readily than others. An accountant dealing with financial statements and audits or other detailed work may require a longer period of time to evaluate than someone working on a short-term project such as a lease or purchase contract. However, all advisory work can be and should be evaluated over time. Some projects may initially appear successful but fail in the long run. If you would choose to hire an advisor a second time you have had a successful experience. If you would not re-hire the advisor, evaluate the situation to determine what went wrong and try to prevent the situation in the future.

Choosing and using professional advisors is critical to businesses of all types and sizes. A good working relationship with your advisor(s) can help determine the long-term chances of reaching your business goals. Experienced business advisors can assist you with contacts at banks and other financial institutions. An effective ongoing working relationship with your advisors can give you, the entrepreneur, a wealth of knowledge, experience, insight and contacts that can greatly enhance your success.

For current and future owners of small and medium-sized businesses in Colorado,

introducing a non-bank business loan provider to help you start, manage or grow your business.

SMALL BUSINESS LOANS Newtek Small Business Finance provides business owners throughout the State of Colorado with the financing they need to start, manage or grow their business. We're staffed with industry experts who understand the fundamental needs of startups and growing small businesses, and are available to assist you throughout each step of the loan process.

LOAN PACKAGING & CONSULTING Newtek Strategies Colorado can provide you with loan packaging services, relieving you from much of the time and effort associated with applying for your loan.

REFERRAL ALLIANCES Become a referral alliance partner through Newtek Strategies Colorado and earn fees for referring our small business services to your customers, members or franchisees. Almost any type of organization is eligible, including franchisors, non-profits, community banks and credit unions.

CONTACT US Call Newtek Strategies Colorado at (303) 670-4246 for more information on our quality small business services and referral alliance opportunities.

Newtek Strategies
Newtek Small Business Finance

35715 U.S. Highway 40
Suite 203-D
Evergreen, CO 80439
PH:(303) 670-4246
Visit us online at www.newtekstrategies.com

At Newtek, we do it better.

Newtek Small Business Finance and Newtek Strategies Colorado are Newtek Business Services, Inc. companies (NASDAQ: NKBS)

BUSINESS PLAN

An effective business plan serves at least four useful purposes:
1) It helps entrepreneurs focus their ideas. It also helps determine whether a business idea is feasible
2) It creates a track for management to follow in the early stages of the business
3) It creates benchmarks against which the entrepreneur and management can measure progress
4) It provides a vehicle for attracting capital to help finance the business

A well written business plan is an important document for any business seeking financing. However, a thorough business plan is an essential tool for all businesses, regardless of financial needs. Most lenders will not discuss financing without a business plan. The business plan brings together all the goals, plans, strategies and resources of a business. In addition, if you write a comprehensive business plan prior to the commencement of operations, it may save you from significant financial and professional losses in an unprofitable business. Both the federal and state governments provide assistance in helping you create your business plan and in locating financing opportunities. Refer to the Sources of Assistance and Financing Options chapters of this Guide.

BUSINESS PLAN OUTLINE

There are no hard and fast rules in formatting your business plan. However, it should be written by the owner of the business with outside assistance as necessary. A business plan written by an outside consultant is someone else's business plan. The length and content often vary depending on such factors as the company's maturity, the nature and complexity of the business and the market it serves. The following outline is effective and comparatively easy to develop.

The Executive Summary

This section is a summary of the key elements of your plan. The executive summary is sometimes all the potential investor or lender will read, so it must capture his/her attention. An effective summary will properly position your company and help to distinguish your concept from the competition. It should be concise, persuasive and no more than two to three pages in length. If the executive summary fails to move your potential investor into the depths of your plan, it has failed to do its job. The Executive Summary should include:

A SOUND BUSINESS PLAN IS IMPORTANT TO THE SUCCESS OF ANY BUSINESS AND REQUIRES AN INVESTMENT OF SUBSTANTIAL TIME AND RESOURCES

SAMPLE BALANCE SHEET

Assets
- ❑ Current Assets
- ❑ Fixed Assets
- ❑ Other Assets

Total Assets

Liabilities
- ❑ Current Liabilities
- ❑ Long-term Liabilities
- ❑ Equity

Total Liabilities & Equity

- A description of your business and its target markets, what differentiates your company's product or service and your company's strategy for success
- A description of your management team, including their skills, experience and weaknesses
- A summary of key financial projections over the next three years
- A summary of funding requirements, when the funds will be needed, where the funding will come from and how it will be spent

The Business

The purpose of this section is to explain in detail who you are, what you do, what your goals are and how you plan to get there. This section should include:

- A general description of your business, including: a history of the business, the concept of the company, form of legal structure and business organization, products and services offered, customers sought and the competitive advantages you offer
- A list of the products and services your company provides including an outline of your competitive advantages, distribution methods and unique product qualities
- An analysis of your major competitors and product/service cycles, including who they are, their strengths and weaknesses and how your company compares
- Your target market and competitive strategy - an overall description of the market for your products/services detailing your market success factors, customer demographics, phychographics (lifestyle traits), present and future markets, how you will sell to each market segment, special characteristics of your products/services and of the overall general market and current and future competitive strategies
- Your marketing plan, including a description of the marketing goals, how the company expects to achieve those goals, promotion, pricing and distribution plans, use of the Internet and associated expenses
- Your management and personnel, including a description of the principals of the company, their backgrounds and experience and the company structure

- The physical geography of your business, including a description of each location and facility, whether you lease or own, previous or planned renovations, what zoning restrictions or permits are required and transportation access for customers and shipping

Financial Data

The purpose of the financial plan is to provide the reader with vital financial information about your business. The financial plan should include projections for two to five years minimum. Projections, as realistic as possible, are vital for the success of a new business. If you have not had experience in preparing financial information, you may need to obtain professional assistance with this section of your business plan. This section should include:

- Projected start-up costs that include the cost of equipment, inventory and real estate as well as operating expenses until the business is profitable
- A description of the type of loan/financing you desire, including the amount, the length of the loan, desired terms, how you will use the money, how you are going to pay it back, available collateral and how you will pay it back if something goes wrong
- A list of your capital equipment, including equipment used to manufacture or deliver your product or service (not the equipment or merchandise you sell directly to a customer) such as manufacturing machinery and delivery fleets, permanent fixtures such as special lighting, air conditioning, office equipment, computers, etc. If financing will be used to purchase some of this equipment, list it separately from the equipment you already own
- A balance sheet provides a snapshot of what you own and what you owe at a particular point in time. It contains the same categories of information regardless of the type of business. Assets should be ranked in a decreasing order of liquidity while liabilities should be listed in decreasing order beginning with the most immediate due. A balance sheet is in balance when Total Assets = Total Liabilities + Total Equity

CALL YOUR NEAREST SMALL BUSINESS DEVELOPMENT CENTER FOR A LIST OF BUSINESS CLASSES. CALL (303) 592-5920.

- A break-even analysis allows you to demonstrate when your business will reach its break-even point - when sales will reach a level to cover expenses. A break-even analysis can tell you quickly if your costs are too high or if the price of your product or service is too low. A basic breakeven formula is:

  BE = FC/(P-VC)

  BE = Break-even: The point where total costs equal total revenue

  FC = Fixed Costs: Costs that remain constant over time such as rent insurance, interest, salaries, etc.

  P = Price: Money received for a product or service

  VC = Variable Costs per unit: The per unit costs that vary directly with sales volume such as manufacturing labor, materials, sales costs, etc.
- Financial projections demonstrate what your business will look like at a certain future period of time. Projections should be prepared on a month by month basis for the first year and by quarters for the second and third years. They should be organized in a summary type financial format and should cover your company's sales revenues, costs and income (Income Statement) and cash flows (Statements of Cash Flows)
- A deviation analysis recalculates your financial projections from the aforementioned based on changes in your income, cash flow, etc. Typically, this analysis is performed for two situations. First, based on a 50 percent increase in your projections, and second based on a 50 percent decrease
- Historical financial reports should be included for an existing business such as balance sheets, income statements and tax returns for the past three years if available

Supporting Documents

You may include personal resumes and financial statements, credit reports, letters of reference, letters of intent, copies of leases, legal documents and anything else relevant to your plan.

PLANNING HINTS

A sound business plan requires an investment of substantial time and resources. You may require the assistance of qualified professionals to complete your plan. Refer to the Choosing Advisors and Sources of Assistance chapters of this Guide.

Suggestions on Format and Approach

- Provide a table of contents and tab each section
- Type the plan on 8½″ x 11″ paper
- Use charts, graphs and other visual aids, as well as color, to add interest and improve comprehension
- Indicate on the cover and the title page that all information is proprietary and confidential
- As you complete sections of the plan, ask impartial third parties to review them and give their perspective on the quality, clarity and thoroughness of your plan. There are 16 Small Business Development Centers listed in the Sources of Government Assistance that provide free one-on-one counseling in many areas, including business plans
- Finally, if you intend to use your plan to attract capital, honestly ask yourself whether you would invest in the business based on reading the plan. If you can't honestly answer yes, then the plan needs more work.

Marketing emphasizes the customers' needs and wants. A comprehensive marketing plan starts with describing your market place. Your business should be driven by the customer. The marketing plan should fit your product development, pricing, promotion and distribution around the customers' needs.

A typical problem in an entrepreneurial business is that the marketing is focused on a product and when it does not monitor change, then it fails to adapt to the real needs and desires of clients. Take for example the typewriter sales business. Entrepreneurs who did not monitor the innovation of personal computers were put out of business when they failed to monitor the real needs and desires of customers. With the customer as your guiding light then, all your company's policies should be aimed at satisfying your customers' needs and desires. Everyone in the company has a marketing job.

A second problem commonly made in entrepreneurial companies is that they focus on increasing sales rather than increasing profit. Profitable sales volume is better than maximum sales volume. Regular sales analysis will uncover your most profitable market segments and product lines.

THE MARKETING MIX

The key variables to successful marketing - called the marketing mix - are people, products, services, price, promotion and distribution. In marketing textbooks these are called the five P's of Marketing.

- People: Your customers and prospects drive the marketing plan. You should analyze these people before you do anything else in your business.
- Products and Services: Effective product strategies can vary greatly. They include concentrating on a narrow, specialized product line or providing a large selection of products. Your strategy may be to provide a high level of customer service or low cost products with minimal service. Different products and services will meet the needs of different customers.
- Price: Determining the price level and pricing policies are a major factor affecting total revenue. Higher prices mean lower sales volume, whereas lower prices may reduce profitability. While a small business can frequently command higher prices because of the personalized services it offers, many customers will still shop based on price alone.
- Promotion: This marketing area includes advertising, sales, public relations, publicity, events and other promotional tools. Since every employee is part of the marketing process, keeping a focus on customer service is a necessity to grow sales. High quality sales will also aid sales growth. This includes consultative selling techniques.
- Product Distribution: You must identify the best method for product distribution. Manufacturers can distribute their own products or utilize established distributors or manufacturer's agents. Small retailers must give careful consideration to cost and traffic flow when determining site location. Advertising and rent are usually reciprocal. In other words, low-cost rent usually means low traffic. As a result you must spend more on advertising to build traffic.

You will utilize the 5 P's of marketing when you develop a marketing plan. Before you start the plan however, you must do market research.

MARKET RESEARCH

Knowing if there is a demand for your business may be hard to assess. Small business success is based upon the ability to cultivate and develop a loyal customer base. You must focus your efforts on identifying, satisfying and following up on the customer's needs. To reduce the risk of starting a new business you can do market research. Although research cannot guarantee success in your business, it can improve your chances by estimating sales potential and avoiding losses caused by lack of responsiveness to market demand.

Before You Start: Before investing your time and money in a market research study,

there are a number of things you should consider to help you determine what your customers want.

- Who will purchase the product or service?
- Who makes the buying decisions?
- What is the current demand?
- What other products or services currently satisfy that demand?
- How many companies provide those products or services?
- When is the product purchased?
- Why is it seasonal?
- Where is the product purchased?
- Where is the buying decision made?

- How does the potential customer buy the product now?
- Will that customer buy the product again?
- How are purchases financed or serviced?

What You Must Know To Do Your Own Market Analysis

Know your product. What need will it satisfy? How does it compare to the competition? Is it priced fairly? Your marketing strategy should work to disclose customers' problems and areas of dissatisfaction that can be easily remedied. This process will help identify opportunities for new products and services.

Try to determine the quality and quantity of your market segment. For example, in the retail business, it would be helpful to know the average income of the people in your selling area to predict spending levels and to estimate how many people are potential customers. Use the following resources to help you:

- **Census Bureau:** They have statistical information on population, age, education and income demographics. Call them for information at (303) 969-6750 or visit their Internet address at www.census.gov
- **Colorado Department of Labor & Employment:** It has industry and labor market statistics. Call directly at (303) 318-8852 or visit its Internet address at: www.coworkforce.com
- **Department of Local Affairs State Data Center:** They also have useful demographic information. Call (303) 866-4147 or visit their Internet address at: www.dola. state.co.us/demog

Determine the proper location for your business. Gather information about traffic patterns (vehicular and pedestrian) to assess sales potential. The Colorado Department of Transportation (CDOT), Division of Transportation Planning, 4201 E. Arkansas Ave., Denver, CO 80222, (303) 757-9488 or www.dot. state.co.us/ has information on vehicular movement on state highways. Some local governments have similar information for city and county roads. In addition, you should observe pedestrian movement during business hours to estimate the amount of walk-in traffic your business might receive.

Market research should identify trends that may affect your sales and profitability. Population shifts, legal developments and local economic conditions must be monitored to identify problems and opportunities. Competitors' activities should be monitored. Check the local Yellow Pages to locate your major competitors. What strategies are they using successfully or unsuccessfully? Are you prepared to take advantage of a competitor leaving the market or respond to a new competitor entering the market? Do comparison price shopping, be competitive and still profitable.

Conducting A Market Study

If you want to hire someone to conduct your research, private firms offer full or partial services and will perform an extensive market study including design, administration and analysis. Fees will vary depending upon the study. Consult your Yellow Pages for listings and refer to the Choosing Advisors chapter of this Guide.

If you want to do your own research, the following list of contacts and agencies, though not exhaustive, will serve as a general guide to sources offering market research information at little or no cost. In addition, refer to the Sources of Assistance chapter of this Guide.

- **Chambers of Commerce**
  Local chambers can provide business development and real estate information and various community facts. Call the BAC at (303) 592-5920 for the number to your municipal chamber or visit the Internet address at: www.state.co.us/business_dir/chambers.html
- **US Department of Commerce/Census Bureau**
  The Census Bureau offers statistical profiles of an area and general social and economic demographics such as population composition, age, income, education and industry of employed persons. A library is on the premises for research at 6900 W. Jefferson Ave., Lakewood, CO 80235-2032, (303) 969-7750 or visit its Internet address at www.census.gov
- **Colorado Department of Labor and Employment/Labor Market Information**
  This department's Labor Market Information Section provides demographic breakdowns and publishes a "Colorado Labor Market Information Directory" and an "Annual Planning Information Report" covering state and local labor market areas. For more information, contact the Labor Market Information Section (303) 318-8852 or visit its website at www.coworkforce.com
- **Trade Associations**
  Trade Associations may be useful to help you find out the number of similar merchants in your market area. Members who are currently in the market may also assist you with information to get started.

You can find listings in the reference section of the public library in the "Encyclopedia of Associations." While at the library, feel free to ask the reference librarian how to access this publication online.

- **Public Libraries**
  The Denver Public Library's Business Reference Center is the most extensive in the state. The library provides access and assistance to help you research more than 1,000,000 publications by federal, state and local government agencies and also has a business periodicals index. The larger suburban branches in the Denver metro area tend to possess better business collections than smaller branches. Inter-library loans to share resources are also available statewide. The Denver Public Library/Business Reference Center is located at 10 W. 14th Ave. Pkwy, 4th Floor, Denver, CO 80204, (720) 865-1111 or visit its Internet page at www.denver.lib.co.us/
- **University of Colorado at Boulder**
  Universities are a good source of information. Business school departments may offer student market studies for no charge, yet professors may charge a modest fee. Also, extensive library collections may be available for public use. The University of Colorado - Boulder Technical Research Center has a comprehensive database and will perform a sophisticated market search for a fee. For more information, contact the Colorado Technical Research Center, Norlin Library, Campus Box 184, Room E-206, Boulder, CO 80309, (303) 492-8774 or visit its website at: http://www-libraries.colorado.edu/ ps/ids/ctrc/frontpage.htm. For additional sources of marketing assistance refer to the Sources of Assistance chapter of this Guide.

DEVELOP A MARKETING PLAN

A marketing plan is one of the most important aspects of any small business. It will assist you in evaluating your company's marketing needs and give a concise direction to your marketing efforts. Above all, if developed properly, the plan should help you increase your market share in a cost-effective, timely and productive manner. Marketing plans only work when you implement them - putting them in writing is the first step.

Steps to a Successful Marketing Plan

Determine the philosophy of your company. Define whom the company serves and what those customers need and want today. Evaluate the company's internal and external purpose.

Establish Marketing Goals

Include short and long-term goals. Most companies have a number of marketing goals that need to be addressed. When determining these goals, it is important to prioritize them in order of need and availability of funds. Consider the following:

1. Are you selling as much to your existing clients as you could?
2. Are there new products and services that your existing clients would like that no one else can offer?
3. Are there new markets that would like your existing products and services?
4. How do you compare to the competition in pricing? Quality?
5. Is your image consistent with your message?
6. What are the best promotional techniques to reach each market segment?

Establishing a Marketing Budget

A budget should be created for a minimum of 12 months. The key to a successful budget is realism. You should project sales by product for that period of time and marketing expenses such as sales salaries, sales training, advertising, promotional materials, etc.

Create a Timeline

Your budget will drive your timeline. Most small companies must look at phasing in projects based upon cash flow constraints. You should also promote your business at a time that is convenient for your audience. Your market research should help answer these questions.

Develop an Effective Team

Most small businesses need more people to work the plan than they can afford. Hire employees and consultants to meet your highest priority needs within your budget. Then, prioritize the tasks and provide rewards to motivate the team to help you build the company further.

Follow the Plan and Track the Results

Once your budget and timeline is put together, track actual results against your projections. Then evaluate what is working and what needs to be changed. Monthly and weekly monitoring is critical. Sales people should be measured daily for results. (e.g. closed sales, new leads, qualified leads, etc.) Most small companies change 20 to 50 percent of their marketing plan every quarter.

Develop Next Year's Marketing Plan

As you monitor results, new goals and strategies for the coming year will evolve. Keep track of these so that next year's plan is easier to develop.

THE ADVERTISING COMPONENT

While advertising is a key component in a marketing strategy, advertising alone is not marketing. It is important to develop a clear message before committing and spending advertising dollars. An effective advertising campaign can quickly provide a return on your investment, while a poorly planned advertising campaign may drain profits from your business.

The basic premise of an advertising plan requires analysis of four key questions before you make your advertising decisions.

What do you want your advertising to accomplish?

The first step in developing your advertising strategy is to specify your advertising goals. Be precise. Your goals should include increasing awareness of your business, attracting customers away from the competition, increasing the likelihood of keeping your current customers, developing customer loyalty and increasing the immediate sales and leads.

While all of the above goals are important, you should prioritize your specific goals and focus on one or maybe two goals at a time.

Who is your audience?

Once you have determined your advertising goals, select the target audience for your message. Your market research should have already identified your customers and potential customers. Advertising that tries to reach everyone rarely succeeds. Picture the people you must reach to achieve your advertising goals. Use the following as a guide for targeting and evaluating your customers:

- Demographics such as gender, age, income, location of residence, occupation, marital status, etc.
- Behaviors such as awareness of your business, loyalties, hobbies and recreational activities, lifestyles, etc.
- The wants and needs of your customers and the decision as to whether your product and services can fulfill those needs.

What should your advertising say?

Once you know who your target audience is and what they are looking for, you can decide what your advertising will say. Communicate a message that will be important and speak clearly to your customers. It should explain the important benefits your products and services offer.

Where should you place your advertising?

Many advertising media work well to reach a diverse range of target customers. No single medium is inherently good or bad. A good medium for one product may be a poor choice for another. Guide your advertising placement by a simple principle: Go where your target audience will have the greatest likelihood of seeing and hearing your message. As you consider media choices, make your selection based upon which one(s) fits your advertising goal, reaches your target customer effectively and is within your advertising budget. The following is a brief summary of the advantages and disadvantages of some of the most commonly used advertising media:

- **Television:** Television reaches a great number of people in a short time. Small businesses usually use spot ads. A spot ad is placed on one station in one market. Cable TV is placed on a local cable channel. Advantages of television include the ability to convey your message with sight, sound and motion. The disadvantages of television include its higher cost, limited length of exposure and the clutter of many other ads. It may require multiple exposures to achieve message retention.
- **Radio:** Radio, like television, has the ability to quickly reach a large number of consumers. The major advantage of radio lies in its ability to effectively target narrowly defined segments of consumers. The vast array of radio programming formats lets an advertiser gear ads to almost any target audience. It is also relatively inexpensive. The disadvantages of radio are: The message is limited to audio only with no visual product identification, ad clutter can be high and exposure to the message is short and fleeting.
- **Newspapers:** Newspapers have the advantage of reaching a specified geographic area. Other advantages include ad size, placement and short deadlines that allow for quick responses to changing market conditions. Disadvantages include potentially expensive ad space and ad clutter. Newspapers are generally read once then discarded thus requiring multiple insertions.
- **Magazines:** Magazines provide a means to reach a highly targeted audience. Specific groups can be reached by using magazines of particular interest to the audience. This is true of both consumer and business magazines. Magazines frequently have a well-defined geographic, demographic or lifestyle focus. Magazines have a relatively long life; magazines are often reviewed by a single reader and are passed along to others. The disadvantages of magazines include long lead times, limited flexibility on ad placement and the high cost of production.
- **Billboards:** Outdoor advertising is typically used to reinforce or remind consumers of the advertising message rather than original communication. The advantages include long life, and high visibility and frequency of viewing. The primary disadvantage of billboards is the length of viewing time. The target audience is frequently moving and the message must be kept simple, direct and should be easily understood.
- **Direct Mail:** Direct mailers use specific ranges of mailing addresses, normally by zip code, that place the advertisement directly into the hands of your target audience. With proper focus of the mailing list, there is low waste and greater flexibility on the message presentation. Disadvantages are the relatively high cost per contact, the accuracy of mailing lists and the audience confusion with junk mail.
- **Yellow Pages:** The Yellow Pages share many of the strengths of other advertising media while avoiding many of the weaknesses. The Yellow Pages are best used to supplement or extend the exposure of other media. They reach geographically targeted customers who will keep and regularly re-use them as a reference guide. The greatest disadvantage is ads are normally solicited only once per year. Creative flexibility is limited and there may be many ads for similar businesses.

Selecting the right advertising format or combination of formats is a crucial part of a successful marketing plan. Carefully consider how to best reach your target audience.

EVALUATING YOUR MARKETING EFFORTS

After you have completed the research, developed your plan and created your marketing tools, you need to monitor the effectiveness of your hard work.

- **Customer Reactions:** Sales are the best monitor of your success. However, sometimes you need to look beyond that. Are you getting repeat customers? Do they tend to comment on your product or services? Are you listening to what they say?
- **Tracking Tools:** Translate your sales figures into percentages and tabulate your customer responses. Specific things to track include total units/jobs performed, total number of customers, the number of repeat customers, customer database including addresses, age, income range and how they heard about you.

CREDIT CARDS

Some of the trade associations that assist members in obtaining credit card processing include:

Association	Telephone	Website
The Colorado Retail Council	(303) 297-0657	www.coloradoretail.org
The Colorado Restaurant Assn.	(303) 830-2972	www.coloradorestaurant.com
The Colorado Hotel & Lodging Assn.	(303) 297-8335	www.coloradolodging.com
The Rocky Mountain Food Industry Assn.	(303) 830-7001	N/A

This is NOT a complete list. The "Encyclopedia of Associations" found in many local public libraries lists almost all national and Colorado trade associations.

- **Don't Change a Message Too Quickly:** A common mistake is changing a successful advertising message after it has run for a period of time. Remember that you will get tired of a message long before your customers will. It may take time for your message to sink in, let alone wear out.
- **If It Isn't Working ... Fix It:** Be smart when fixing a problem. Modify your marketing in stages so current customers aren't confused.

SPECIAL MARKETING TOOLS

Agricultural and Food Products

The Markets Division of the Colorado Department of Agriculture is located at 700 Kipling St., Ste. 4000, Lakewood, CO 80215-8000, (303) 239-4114 and assists business owners who sell Colorado food and agricultural products in local, regional, national and international markets. The Division offers assistance in the areas of promotion, research, exporting, business startups and expansion. Representatives are available to meet with you on an individual basis to help you develop or enhance your marketing program. The Markets Division sponsors and co-sponsors several marketing related workshops and seminars each year. It also publishes numerous directories and resource materials to help you market your products successfully. If you have Internet access look up their address at www.ag.state.co.us/mkt/mkt.html for more information. This division's services are available to any company that grows or processes a food or agricultural product in Colorado. Non-food products may also qualify if 50 percent of their ingredients, by weight, are Colorado agricultural goods.

Business Resource Center

Strategically located inside the Denver Metro Chamber of Commerce, the Business Resource Center (BRC) provides useful demographic information about potential business locations. Demographics such as population, age, and average household income are valuable in evaluating whether the surrounding area within 15 miles will support your business. Plus, the BRC includes an "Entrepreneur's Corner" complete with a wide variety of books that target start-up businesses. The BRC works in conjunction with the Denver Small Business Development Center, which is also located inside the Chamber. For more information about the BRC call 303-620-8073 or visit www.denverchamber.org.

Exporting Colorado Products

The International Trade Office (ITO), part of the Colorado Office of Economic Development and International Trade, provides two critical functions: assisting Colorado companies export their products and services to international markets, and attracting foreign investment into the state. Geographic specialists offer export counseling in several areas including sales and marketing, foreign contacts, and shipping and documentation. Staff members are also available to speak at seminars concerning Colorado export-related topics. Through participation in international trade shows and missions, Colorado companies are given opportunities to expand their businesses overseas, while foreign companies are encouraged to invest in Colorado. With representatives in Japan, Europe and Mexico, ITO facilitates both Colorado's inward investment, as well as export promotion. The ITO is located at 1625 Broadway, Suite 1700, Denver, CO 80202, (303) 892-3850.

U.S. Export Assistance Center (USEAC)

The Denver U.S. Export Assistance Center provides businesses, at one location, the trade promotion and marketing programs of the U.S. Department of the Commerce and the trade financing programs of U.S. Small Business Administration and the Export-Import Bank of the United States. At some USEAC locations, additional information is also available on the international programs sponsored by the U.S. Department of Agriculture and Agency for International Development.

Designed to streamline the delivery of export assistance programs to small and medium-sized businesses, USEACs are the federal government's response to the growing competition that American businesses face in the global market place. The USEAC provides consulting and training programs on international marketing and trade financing subjects to clients throughout the region, in addition to being able to introduce businesses to potential buyers overseas through its worldwide network of commercial offices. The Denver USEAC works closely with other federal, state, and local government agencies in Colorado, Wyoming, Utah, Arizona, Nevada and New Mexico to better meet the needs of their mutual clients.

For additional information on the programs offered by the major USEAC partners, please visit their websites at www.sba.gov/oit; www.export.gov; www.exim.gov or contact the USEAC at: 1625 Broadway, Suite 680, Denver, CO 80202; or call (303) 844-6623 (x18).

The World Trade Center (Denver)

The World Trade Center, located at 1625 Broadway, Suite 680, Denver, CO 80202, (303) 592-5760, offers classes, seminars and workshops on international trade in partnership with Metropolitan State College of Denver For more info, visit www.wtcdn.com

Selling to the Government

The State of Colorado has a long list of programs and responsibilities including highways, hospitals, colleges and universities, parks, prisons, courts, museums, libraries, law enforcement and administrative functions. If you have goods or services to sell, government procurement may be a part of your marketing strategy.

Open, competitive bidding is the key to the state purchasing system. When choosing a vendor, the state considers the types of goods and services that can be supplied, the needs of the requesting agency, how well each vendor's goods and services meet the needs of the requesting agency, the date of delivery and the total cost.

Colorado has implemented an automated and centralized procurement information system for over 45 state agencies including all state colleges and universities. The system is called BIDS, Bid Information Distribution System. BIDS maintains a website at www.gssa.state.co.us that vendors can access 24 hours per day, seven days per week to download bid information. Vendors are responsible for checking the website for purchasing opportunities in their areas of business. The website provides basic bid information. Vendors interested in doing business with the state should contact the Division of Purchasing at (303) 894-2039.

The federal government is an even larger purchaser of goods and services. The Denver Small Business Development Centers (SBDC) offers one-on-one procurement counseling at no charge to Colorado businesses. A resource library and a variety of education and training programs are designed to assist businesses with:

- Electronic Data Interchange (EDI) information
- Bid and Proposal Preparation
- Procurement Information Sources
- Pre and Post Award Contractor Strategies
- Bidder's Mailing List Applications
- Cost and Price Analysis
- Contract Performance Techniques

The Denver SBDC Procurement Program also offers a Bid Match Service. This service is an effective tool to assist small businesses in locating federal government bids. Staff perform computerized searches of the Fed Biz Opps. This publication is the leading procurement magazine containing thousands of federal procurement opportunities. Daily customized searches are performed for registered businesses, with applicable bid information faxed directly to the business. The registration fees vary. Call the Denver SBDC Procurement Program at (303) 620-8032 for fee information. The Internet has a lot of information about the national Small Business Development Center network. The address for information nationwide, including Colorado, is sbdcnet.utsa.edu

"A BASIC GUIDE TO EXPORTING" IS AN EXCELLENT RESOURCE GUIDE AND MAY BE PURCHASED FROM THE U.S. GOVERNMENT BOOKSTORE AT 1660 WYNKOOP STREET, SUITE 130, DENVER, CO 80202-1144.

SBA'S FEDERAL PROCUREMENT ASSISTANCE

Government Contracting Process for Small Businesses Simplified

An integrated database of small businesses that want to do business with the government has simplified the federal contracting process. PRO-Net and the Central Contractor Registration databases have been integrated into one portal for entering and searching small-business sources.

To conduct market research and confirm eligibility for SBA's procurement preference programs, users can now go to the CCR website at www.ccr.gov and click on "Dynamic Small Business Search." All of the search options and information that existed in PRO-Net can now be found at this CCR Dynamic Small Business Search site.

Small businesses seeking to market their goods and services to the federal government must register at the CCR site, but they no longer need to manually register in both PRO-Net and CCR.

Please note that if you are interested in receiving Small Business Disadvantaged, HUBZone or 8(a) certification, you will need to refer separately to SBA to complete that process.

HUBZone Empowerment Contracting Program

This program encourages economic development in historically underutilized business zones — "HUBZones" — through the establishment of federal contract award preferences for small businesses located in such areas. After determining eligibility, the SBA lists qualified businesses in its PRO-Net(tm) database. See SBA's home page located at www.sba.gov/hubzone

Small Disadvantaged Business Program (SDB)

SBA certifies SDBs to make them eligible for special bidding benefits. Evaluation credits available to prime contractors boost subcontracting opportunities for SDBs. Under federal procurement regulations, the SBA certifies SDBs for participation in federal procurements aimed at overcoming the effects of discrimination. SBA certifies small businesses that meet specific social, economic, ownership, and control eligibility criteria. Once certified, the firm is added to an online registry of SDB-certified firms maintained in PRO-Net. Certified firms remain on the list for three years. Contracting officers and large business prime contractors may search this on-line registry for potential suppliers. See SBA's home page located at www.sba.gov/sdb/

8(a) Business Development Program

The 8(a) program assists the development of small firms owned and operated by individuals who are both socially and economically disadvantaged. By extending government contract preferences and other business development support, it helps these firms gain access to the economic mainstream. Typically a small business must have been in operation for at least two years before applying to this program. Contact the SBA's Colorado District Office at (303) 844- 2607 ext. 224 for more information.

Product Bar Codes

The Universal Product Code (UPC) is a system for uniquely identifying the thousands of different suppliers and millions of different items that are warehoused, sold, delivered and billed throughout retail and commercial channels of distribution. It provides an accurate, efficient and economical means of controlling the flow of goods through the use of an all numeric product identification system. UPC initially came into being to serve the grocery industry and facilitate the automatic capture of product identification at supermarket checkout stands by means of laser scanners. Successful implementation of the UPC system with its many benefits has resulted in its adoption by mass merchandise, department and specialty stores as well as industrial and commercial sectors of the economy.

The UPC consists of three parts: a unique six-digit identification number assigned to your company, a five-digit product number which you assign to each of your products and a single twelfth digit check number. A unique number should be assigned to each product and each product size. For example, two different flavors of fruit jam in two different sizes will require four product numbers. Duplicating UPC numbers will create chaos for you and your retailers! The Uniform Code Council (UCC) is the central management and information center for manufacturers, distributors and retailers participating in the UPC system. This organization is NOT a government agency. It is a private trade council which develops standard product and shipping container codes, controls and issues company identification codes, provides detailed information and coordinates the efforts of all participants. While membership in the UCC is voluntary, you must join to obtain a UPC identification number for your business. Small businesses that desire to sell their products to large retailers should give serious consideration to joining the Uniform Code Council. For more information, contact the Uniform Code Council, Inc. at 7887 Washington Village Dr., Ste. 300, Dayton, Ohio 45459, (937) 435-3870 or visit its Internet site at www.uc-council. org/

Credit Cards

Your customers will frequently desire to make their purchases using major credit cards. Credit card processing is usually done through a commercial bank. Banks collect a fee, usually a small percentage of the sale, for processing credit card receipts. Chambers of commerce and professional trade associations (see page 60) offer assistance to their members in establishing credit card processing accounts. As a new business, you should be aware that many banks have a standing policy requiring businesses to be in operation for one or more years before opening credit card processing accounts.

"This must be a trick question. The SBA 504 Loan Program is easily the best option."

Find out how you can receive up to 90% financing on the purchase, construction or expansion of commercial real estate for your small business.

COLORADO LENDING SOURCE

the #1 SBA 504 lender in Colorado

518 17th Street, Unit 1800, Denver CO 80202
Phone: 303-657-0010 or 877-852-6799 Fax: 303-657-0140
E-Mail: info@ColoradoLendingSource.org
www.ColoradoLendingSource.org

In all cases, the prospect of a profitable investment as shown by a sound business plan is a key step to seeking financing.

WHAT YOU NEED TO KNOW

Financing for your business may be obtained from private investors, lenders, and other financial institutions. In Colorado, as nationwide, most new businesses are initially financed by personal investments from the owner, family, friends and personal business contacts. While it is not impossible, it is often more difficult for new businesses to obtain outside financing. The vast majority of outside financing for small businesses comes from commercial banks and savings and loan institutions. Commercial finance companies, leasing companies, insurance companies, and private or public stock offerings are other financing vehicles that may suit a particular small company's needs. The next three sections review the different financing sources and some of the advantages, disadvantages and limitations of each resource. As you seek financing for your business, there are questions you should ask: For what do I need financing? How much do I need? How much may I borrow? For which programs does my business qualify? What information do I need to provide the lender/investor? Do I have to pay interest? If so, will the interest rate vary over the term or will it be a fixed rate? Will I be required to "share" ownership in my business? How long will it take to acquire the money? What are the repayment terms?

No matter which type of loan or financing option you choose, the lender will judge your ability to repay the loan and evaluate your collateral. He/she will ask for information to determine how you manage your business, how likely you are to default on the loan, the size of the loan compared to how much you have (your debt to tangible net worth ratio) and your company's ability to liquidate its current assets. In all cases, the potential for a profitable investment as reflected in a sound business plan is a key step to obtaining the financing you need.

THERE ARE NO GOVERNMENT GRANTS FOR STARTING A NEW BUSINESS.

Assistance in how to prepare a business plan is available through a number of government offices and private management and financial consultants. See the Sources of Assistance chapter of this Guide.

Financing needs may generally be categorized into three major classifications: short-term, intermediate and long-term financing as well as equity financing.

SHORT-TERM FINANCING METHODS

Credit Lines

Under a revolving line of credit agreement, the lender, usually a bank, supplies a business with funds intended to fill temporary shortages in cash that are brought about by timing differences between cash outlays and collections. Credit lines are typically used to finance inventories, accounts receivable or for project or contract related work. You must often have a track record before you can receive a credit line, and collateral may be required. There is usually a time limit that is negotiated on the credit line. Banks will generally require that you maintain a designated balance of funds in your commercial bank account.

Short-term Loans

These types of loans may be used for seasonal build-ups of inventory and receivables, as well as to take advantage of supplier discounts or pay lump-sum expenses, such as taxes or insurance. Generally, you repay short-term loans in a lump sum at loan maturity. Short-term loans are generally made on a secured (or collateralized) basis and are for a term of a year or less.

Asset-Based Loans

These are loans where the lender advances funds to the small business based on a percentage of it's current assets, usually accounts receivable or inventory. The loan is used as a source of funds for working capital needs. The lender takes a security position in the assets owned by your business.

Contract Financing

One method of arranging financing for contracts for goods or services or purchase orders is to use your contract(s) as collateral for a short-term loan(s). In contract financing, funds are advanced to you as work is performed. Payments by the contracting party, the business for whom you are working, are generally made to the lender. Obviously, a major consideration for a lender is your business' ability to satisfactorily perform and complete the contract or purchase order.

Factoring

This is somewhat similar to accounts receivable financing with one notable exception. Factors actually buy your receivables and rely on their own credit and collection expertise. Essentially, your customers become their customers. Payments are made directly to the factor by your buyer. Factoring is generally used by firms unable to obtain bank financing. As a result, the cost of factoring is usually higher than other forms of short-term financing. However, factoring can offer you several advantages. Factoring relieves small companies of the expense and responsibility of maintaining a credit and collection department. The factor normally provides all of these services for a fee. Factoring also offers flexibility in the amount of borrowing. Factoring is commonly provided on a continuous contractual basis rather than on a one-time transaction. As new receivables are generated, they are sold to the factor. Therefore, as your company's sales grow, additional financing becomes available. The sale of receivables to the factor may be either with recourse or without recourse. Without recourse is the method preferred by most small businesses because it means that the factor assumes the full risk of non-payment by the company that owes the receivable.

INTERMEDIATE AND LONG-TERM FINANCING METHODS

Term Loans

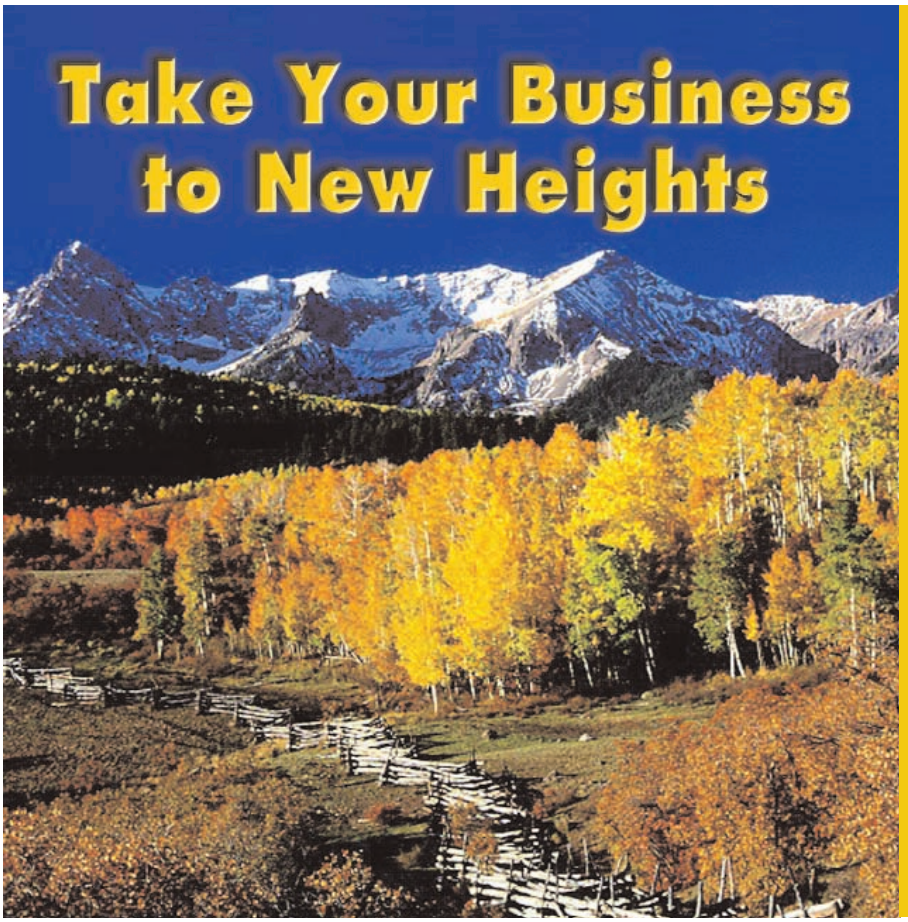
These can be used to finance your permanent working capital, purchase of new equipment, construction of buildings, business expansion, refinance existing debt and business acquisitions. Commercial lenders are the major source of term loans. Other sources include commercial finance companies and government agencies. The maturity of term loans varies significantly. The term of the loan is based largely on the useful life of the assets being financed or used to collateralize the loan. Term loans are repaid from the long-term earnings of your business. Therefore, your projected profitability and cash flow from operations are two key factors lenders consider when making term loans. Most term loans are repaid on an installment basis, and your cash flow must be sufficient to cover the payments. Generally, interest rates on long-term loans are higher than for short-term loans. Collateral and compensating balances are generally required and the lender will often impose restrictions on your business to reduce the bank's risk.

- **Equipment and Real Estate Loans:** These are term loans fully secured by the equipment being purchased. Commercial banks will typically loan from 60-80 percent of the value of the equipment being purchased. The loan is repaid monthly over the life of the equipment. Commercial banks and other financial institutions make long-term loans secured by commercial or industrial real estate. The loan is usually approved for up to 75 percent of the value of the real estate being financed. You will repay the loan in installments over a 10-20 year period. Commercial banks, commercial finance companies and other financial institutions will also make second mortgages on commercial and industrial real estate. The amount of the second mortgage is based upon the appraised market value of your property minus the amount of your first mortgage.
- **Leasing:** This has become a significant source of intermediate-term financing for small companies in recent years. Virtually any type of fixed asset may be financed through a leasing arrangement. Leasing can be accomplished through a leasing company, commercial bank, the equipment owner or a commercial finance company. Leasing offers a great deal of flexibility as it can be used to finance even small amounts. If you are interested in leasing a fixed asset, your business will be subject to the same type of review as you would when seeking a loan. The leasing company will be particularly interested in the cash flow of your company. The value of the leased equipment and its useful life are used to determine the amount of financing available. Generally, equipment leases are for three to five years. When leasing, the total cash outlays may be greater than the total cost of an outright purchase or even a loan to finance the purchase. However, the after-tax costs must be determined to compare the actual cost of each option. At the end of a lease, there are generally three options: purchase the equipment, renew the lease or return the equipment to the lessor.

GOVERNMENT GUARANTEED AND GOVERNMENT DIRECT SOURCES OF FINANCING

At all levels of government, there are a number of finance programs to assist you in making your business successful. In most cases, these government programs improve your chances of obtaining financing by providing both longer and more flexible loan terms. In limited instances, some state and local governments do provide direct financing. Guaranteed loans are loans made through commercial lending institutions that are backed by a government agency. With guaranteed loans, the commercial lending institution disburses all loan proceeds and collects all loan payments. Direct loans are loans made directly to the business by the government agency. Each government finance program has its own restrictions and unique qualifications. Program restrictions include geographical location, type of business, eligible uses of loan proceeds, maximum and minimum loan amounts, and required equity injection by the borrower. The first step in obtaining a government guaranteed loan is to contact a commercial lender in your area.

U.S. SMALL BUSINESS ADMINISTRATION (SBA) FINANCE PROGRAMS



More than 25,000 Coloradoans have obtained $4 billion in loans and thousands of Colorado entrepreneurs have received business counseling and training through SBA resources. Maybe we can help take your business to new heights too.

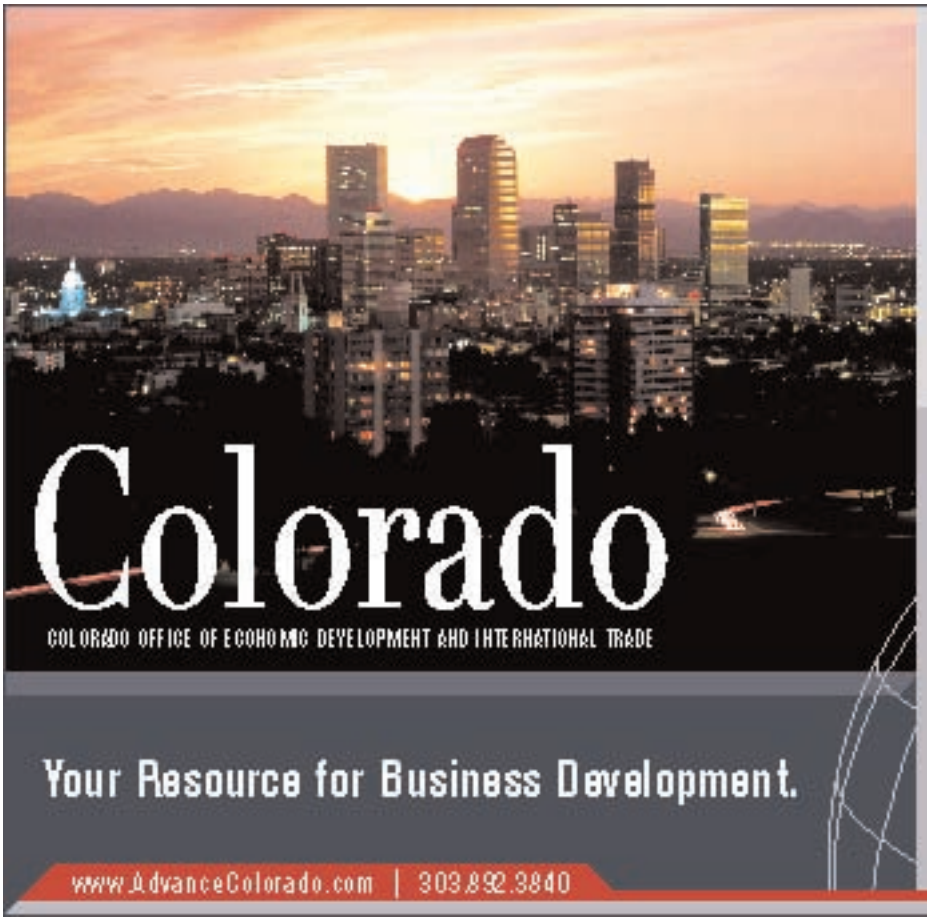
Contact 1 800 U ASK SBA, www.sba.gov or the SBA's Colorado District Office at 303-844-2607

U.S. Small Business Administration

SBA

America's Small Business Resource

All of the SBN programs and services are provided to the public on a nondiscriminatory basis.



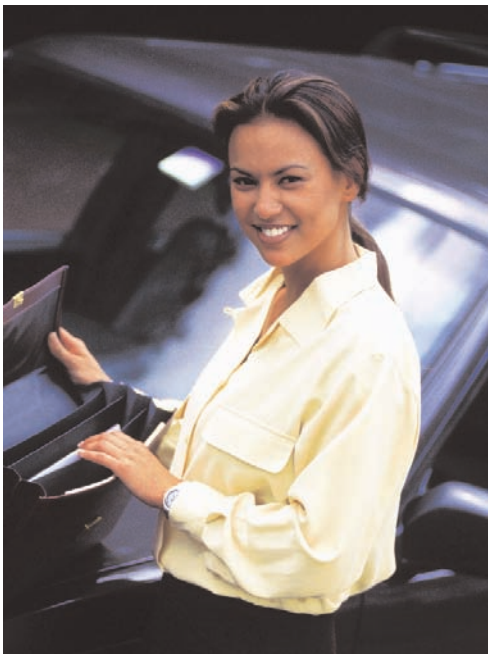
COLORADO OFFICE OF ECONOMIC DEVELOPMENT SERVICES:

Business Development
Business Finance
Colorado Tourism Office
Economic Development
Emerging Industries & Biosciences
International Trade Office
Small Business Development Centers
Women & Minority Business Office

Though the SBA does offer a variety of guaranteed loan programs, the agency has no funds for direct lending or grants.

SBA's Loan Guaranty Programs

The 7(a) Loan Guaranty Program provides short- and long-term loans to eligible, credit-worthy start-up and existing small businesses that cannot obtain financing on reasonable terms through normal lending channels. The SBA provides financial assistance through its participating lenders in the form of loan guaranties, not direct loans. SBA does not provide grants for business start-up or expansion. Loans



under this program are available for most business purposes, including purchasing real estate, machinery, equipment, and inventory, or for working capital. The loans cannot be used for speculative purposes. The SBA can generally guarantee a maximum of $1.5 million under the 7(a) program. The guaranty rate is 85 percent for loans of $150,000 or less; 75 percent for loans greater than $150,000, and 90 percent for loans made under the Export Working Capital Program. Generally the interest rate cannot exceed 2.75 percent over the prime rate as published in *The Wall Street Journal*, except for loans under $50,000, where the rates may be slightly higher. Maturity may be up to 7 years for working capital, 10 years for equipment and up to 25 years for fixed assets. Contact a commercial lender or the SBA's Colorado District Office at (303) 844-2607 for more information on the following programs.

- **504 Certified Development Loan Program**
  The "504" Program provides fixed-rate financing to small businesses to acquire real estate or capital machinery and equipment to expand or modernize. Typically at least 10 percent of the project is provided by the borrower, at least 50 percent under a commercial loan by a lender, and the remainder provided by an SBA-guaranteed debenture. The maximum SBA debenture is generally $1.5 million. This program is delivered through Certified Development Companies (private, non-profit corporations established to contribute to the economic development of their communities or regions). Contact the SBA's Colorado District Office at (303) 844-2607 for more information.
- **Low Documentation Loan (SBA LowDoc), a 7(a) Loan Program**
  This loan guaranty program reduces the paperwork involved in loan requests of $150,000 or less. The SBA uses a one-page application for SBALowDoc that relies on the strength of the applicant's character and credit history. Once an applicant satisfies all of the lender's requirements, the lender may request a SBALowDoc guaranty from the SBA. Contact a commercial lender for more information on this loan guaranty program.
- **SBAExpress, a 7(a) Loan Program**
  This program encourages lenders to make more small loans to small businesses. Participating banks use their own documentation and procedures to approve, service and liquidate loans of up to $350,000. In return, the SBA agrees to guarantee up to 50 percent of the loan.
- **CAPLines, a 7(a) Loan Program**
  This program finances the short-term and cyclical working-capital needs of small businesses. Under CAPLines, there are five distinct short-term working-capital loans: Seasonal, contract, builders, standard asset-based and small asset-based lines. For the most part, the SBA regulations governing the 7(a) Loan Guaranty Program also apply to CAPLines. The SBA generally guarantees up to a maximum of $1.0 million under the program.
- **Export Working Capital Program (EWCP), a 7(a) Loan Program**
  This program enables the SBA to guarantee up to 90 percent of a secured loan, or $1.5 million, whichever is less. Loan maturity may be for up to three years with annual renewals. Loans may be for single or multiple export sales and may be for pre-shipment working capital, post-shipment exposure coverage or a combination of the two. Proceeds may only be used to finance export transactions. This program targets export-ready small businesses. Contact the SBA at (303) 844-2607 for more information.
- **International Trade Loan (ITL), a 7(a) Loan Program**
  This program offers long-term financing to small businesses engaged or preparing to engage in exporting, as well as to small businesses adversely affected by import competition. The SBA may guarantee up to $1.75 million for a combination of fixed-asset financing and working capital. The working capital portion cannot exceed $250,000. Contact the SBA at (303) 844-6622 ext. 18 for more information.
- **SBA Export Express, a 7(a) Loan Program**
  Small business exporters may now obtain loans of up to $350,000 through the lender-expedited SBAExpress program, with SBA guaranteeing 75-85% of the loan amount. Loan proceeds may be used for buildings, equipment, other fixed assets, foreign trade show costs, translating company literature, export transaction costs, or other working capital needs. Applicants must have been in business for a least one year and must demonstrate that the loan will help the firm enter a new export market or expand in an existing export market. Contact the SBA at (303) 844-6622 ext. 18 for more information.
- **MicroLoan Program**
  This program provides short-term loans of up to $35,000 to small businesses for working capital or the purchase of inventory, supplies, furniture, fixtures, machinery

and/or equipment. Proceeds cannot be used to pay existing debts or to purchase real estate. Loans are made through SBA approved non-profit intermediaries. These intermediaries also receive SBA grants to provide technical assistance to their borrowers. For a list of micro-lenders in Colorado, contact the SBA's Colorado District Office at (303) 844-2607.

- **USDA-Rural Development (USDA-RD)**
  The USDA-RD Business and Industry Loan Program provides loan guarantees and limited direct loans for business and industrial development in rural areas of the state. Rural areas include all territory of a state that is 1) not within the outer boundary of any city having a population of 50,000 or more, and 2) not within an area that is urbanized or urbanizing. Priority is given to rural communities and towns of 25,000 or smaller. The maximum percentage of guarantee is 80 percent for loans of $5 million or less, 70 percent for loans between $5 million and $10 million, and 60 percent for loans exceeding $10 million up to $25 million. Loan proceeds may be used for working capital, purchase of machinery and equipment or to purchase fixed assets. For more information, contact the Community & Business Programs section for Rural Development at 655 Parfet Street, Lakewood, CO 80215 or call 1- 800-659-3656 or visit www.rurdev.usda.gov/co/.
- **Colorado Housing and Finance Authority (CHFA)**
  CHFA offers a number of loan programs to small businesses.

Direct Loan Programs

- **ACCESS Program,** is a program where CHFA provides real estate financing in conjunction with the SBA's 504 program. Generally, CHFA finances a first mortgage for up to 50% of the project cost, the SBA finances 40% of the project and the borrower generally provides an equity contribution of 10%. The program allows the borrower to fix the interest rate on the first mortgage for the entire term of the loan, with a minimal equity contribution.
- **CHFA Direct Real Estate Program,** is a real estate financing program whereby CHFA originates a direct loan for up to 85% of the project cost, and provides a fixed rate for the entire term of the transaction (up to 20 years). The program also allows for the financing of machinery and equipment, as long as it is part of the real estate transaction.
- **Non-Profit Real Estate Program**, is a program designed to meet the special financing needs of non-profit organizations in Colorado (primarily 501(C)(3). CHFA provides affordable financing of real estate, with the benefit of a long-term fixed interest rate for the term of the loan (up to 25 years).
- **The Rural Development Loan Program (RDLP)**, is designed to provide financing for businesses located in rural areas (with populations less than 25,000 residents). CHFA makes direct loans (up to $150,000) for real estate and equipment at a fixed rate for the entire term of the loan.

Secondary Market Programs

- **Quality Investment Capital (QIC) Program**, is a program in which CHFA purchases the guaranteed portion of SBA 7(a) loans that are originated by local banks throughout the State. By purchasing the guaranteed portion of the loans, the borrower is able to take advantage of a long-term, fixed-rate loan. The bank

RLF Offices

Northeastern Colorado RLF	(970) 332-4335	6 Northeastern Counties
Weld/Larimer RLF	(970) 356-4565	Weld & Larimer Counties
Clear Creek County RLF	(303) 569-2133	Clear Creek & Gilpin Counties
Lincoln County RLF (Prairie Development Corp.)	(719) 348-5562	4 Eastern Plains Counties
Prowers County RLF (SECD)	(719) 336-3850	5 Southeastern Counties
Pueblo County RLF	(719) 583-6382	Pueblo County
Otero County RLF	(719) 383-3006	Otero & Las Animas Counties
Chaffee County RLF (UAADC)	(719) 395-2602	6 Central Colorado Counties
Rio Grande County FRL (SLVDRG)	(719) 589-6099	6 San Luis Valley Counties
La Plata County RLF (Region 9 EDDSC)	(970) 247-9621	5 Southwestern Counties
Montrose County RLF Region (Region 10 LEAP)	(970) 249-2436	6 Western Counties
Mesa County RLF (WCBDC)	(970) 243-5242	Mesa County
Summit County RLF (Northwest Loan Fund)	(970) 468-0295	9 Northwestern Counties
El Paso County RLF	(719) 471-2044	El Paso County
Huerfano County RLF (Inactive)	(719) 738-2380	Huerfano County

SBIC LICENSEES IN COLORADO ON OCT. 5, 2004

Appian Ventures L.P. — Phillip Dignan
1700 Lincoln St., Ste. 1800
Denver, CO 80203
(303) 830-2450
E-mail: phillip@appianvc.com

CapEx L.P. — Jeffrey Ross, manager
518 17th St., 17th Floor
Denver, CO 80202
(303) 869-4700
E-mail: jhawkey@capexbic.com

Cornerstone Ventures L.P. — John R. Ord
11001 W. 120th Ave., Ste. 310
Broomfield, CO 80021
(303) 410-2503
E-mail: jord@bvcv.com

Hanifen Imhoff Mezzanine Fund L.P. — Edward C. Brown, manager
1125 17th St., Ste. 2260
Denver, CO 80202
(303) 297-1701
E-mail: rita@rockycapital.com

Roaring Fork Capital L.P. — Sherman J. Miller
5312 DTC Parkway, Ste. I
Greenwood Village, CO 80111
(303) 694-1300
E-mail:
sherman@roaringforkcapital.com

Rocky Mountain Mezzanine Fund II L.P. — Edward Brown & Paul Lyons, managers
1125 17th St., Ste. 2260
Denver, CO 80202
(303) 297-1701
E-mail: rita@rockycapital.com

Vista Ventures Advantage L.P. — Catharine M. Merigold
1011 Walnut St., Ste. 410
Boulder, CO 80302
(303) 543-5716
E-mail: catharine@vistavc.com

Wolf Venture Fund III L.P. — David Wolf
1600 Stout St., Ste. 1510
Denver, CO 80202
(303) 321-4800
E-mail: tshouse@wolfventures.com

gains liquidity by selling the guaranteed portion of the loan, and makes fee income from a servicing fee paid to the lender (by CHFA).

- **Quality Agricultural Loan (QAL) Program**, is a program in which CHFA purchases the guaranteed portion of agricultural loans guaranteed by the Farm Service Agency ("FSA"). Bankers throughout the State originate the loans, then sell the guaranteed portion to CHFA; thereby allowing the borrower to take advantage of a long-term (up to 30 years) fixed-rate loan for farm and ranch related purposes.
- **Business and Industry II (B&I II)**, is a program whereby CHFA purchases the guaranteed portion of Business and Industry loans guaranteed by Rural Businesses Services (RBS). The Program is targeted to businesses in rural locations of the state and allows the borrower to take advantage of a fixed interest rate for up to 25 years.

Special Programs

- **Manufacturing Revenue Bond Program**, is a program that provides favorable tax-exempt Private Activity Bond financing targeted to small manufacturers in Colorado. The program provides for the financing of real estate, machinery and equipment associated with expansion projects specific to manufacturers. Borrowers must meet all eligibility thresholds, all federal tax code requirements, and often must compete for available Volume Cap.
- **Brownfields Revolving Loan Fund**, is a newly established partnership between CHFA, the EPA, the Colorado Department of Health and Environment, and several municipalities throughout the State whereby funds are pooled by the partners and used to finance cleanup of environmentally contaminated commercial properties for future reuse or redevelopment. Financing terms include below market rates, flexible loan terms and creative loan structures. CHFA serves as the fiscal agent for the fund.

For more information on CHFA's loan programs, contact the Colorado Housing and Finance Authority, 1981 Blake St., Denver, CO 80202, (303) 297-7329 or 1-800-877-2432.

The Colorado Office of Economic Development and International Trade (OEDIT):

OEDIT offers financial assistance to existing Colorado businesses and to businesses relocating to Colorado.

Community Development Block Grants (CDBG):

These grants are provided to the State of Colorado by the U.S. Department of Housing and Urban Development (HUD). In turn, OEDIT uses these funds to assist rural communities with their economic development efforts. Businesses receiving CDBG assistance are required to create or retain jobs for low- and moderate-income persons. In some situations, businesses may be eligible if the owner of the business is of low- to moderate-income and the business qualifies as a microenterprise. OEDIT uses these funds to further economic development in two ways: First, the CDBG Infrastructure Program supports a specific business or businesses. Local government-sponsored projects may generally receive infrastructure grants of up to $500,000. Local matching funds may be required. Second, OEDIT provides financial resources to 15 regional Revolving Loan Funds (RLFs), which use the funds to make loans to businesses within their service areas. The RLF programs are available locally, each with its own loan review committee and Board of Directors. The RLFs have considerable flexibility to make small loans from a few thousand dollars up to $250,000. In some cases, loans greater than $250,000 have been approved. For both the Infrastructure and RLF

Programs, applicants can be existing or start-up businesses. OEDIT and, when appropriate, the Governor's Financial Review Committee, reviews and approves all requests for funding.

NOTE: The state's CDBG program does not cover any of the metropolitan areas of Colorado (known as "entitlement" areas), because those areas receive their own allocation of CDBG funds directly from HUD. For more information on the CDBG progams, please contact OEDIT's Finance Staff at (303) 892-3840, or for loans, contact the RLF in your service area directly (see RLF listings).

Certified Capital Companies (CAPCO)

The Certified Capital Companies' Program was created by the Colorado State Legislature in 2001 to provide financial assistance in the formation of new businesses and the expansion of existing businesses. CAPCOs may provide a variety of funding alternatives to eligible Colorado businesses including debt, equity and debt/equity hybrid instruments. The legislation provides CAPCOs an incentive to invest in businesses located in rural parts of the state and in distressed urban communities within the state. Each individual CAPCO generally determines what type of business it will fund, the use of such funding and the amount of funding, within very broad parameters provided by the legislation. For general information on the CAPCO Program, contact OEDIT's Finance staff at (303) 892-3840. To be considered for CAPCO funding, contact each of the six CAPCOs:

Advantage Capital Colorado Partners, I, L.P
(303) 321-4800 ext. 228

Enhanced Colorado Issuer, LLC
(303) 504-5337

Murphree Colorado CAPCO, L.P.
(719) 634-7070

Stonehenge Capital Fund Colorado, LLC
(720) 956-0235

Waveland Colorado Ventures, LLC
(303) 794-1220

Wilshire Colorado Partners, LLC
(303) 446-5904

Colorado Venture Capital

The Colorado State Legislature in 2004 redirected $50 million in premium tax credits to a new Colorado Venture Capital Program. This legislation established a Venture Capital Authority to oversee the new program, with assistance from the Colorado Office of Economic Development and International Trade. The Authority will convert the premium tax credits to cash through a competitive bid process and then will use the cash to fund selected venture capital funds. The venture capital funds will use the cash to make investments in businesses located in Colorado as follows: 25% for rural businesses; 25% for businesses located in distressed urban communities; and 50% for businesses located anywhere in the state. The selected funds will make seed and early stage capital available to qualified Colorado businesses.

For more information on this program, please contact OEDIT's Finance staff at (303) 892-3840.

EQUITY FINANCING

This type of financing allows investors to buy into the ownership of your business.

Advantages

Equity financing provides capital on a permanent basis with no repayment of principal or interest required. It adds to your company's net worth, thereby improving the financial stability of the business and its ability to obtain debt financing. It can also result in outside expertise being added to the management or board of your business.

Disadvantages

It carries with it a higher cost of capital and is therefore more expensive. It dilutes your ownership control of the business and profits must now be shared. Equity financing is a permanent investment and may be difficult to obtain. It can create a conflict of interest between yourself, the business founder and the outside investor(s). It will also require more detailed and timely reports.

- **Private Investors**
  These include family, friends and colleagues, as well as sophisticated private investors, such as wealthy individuals or so-called "angels." This final category represents an excellent source of capital for small growing ventures. Often the size, growth rate and investment amount of a small business are too small to attract a venture capital firm. However, this may represent an excellent opportunity for the wealthy individual or successful entrepreneur looking to assist another entrepreneur. Private investors are difficult to find and require detailed business plans. Investors may be identified by contacting accountants, bankers, stock brokers, venture capitalists or entrepreneur clubs. You must determine that your goals are compatible with those of your prospective investor.
- **The Colorado Capital Alliance (CCA)**
  This is a not-for-profit organization created to facilitate the match between private "angel" investors looking for investment opportunities and entrepreneurs seeking capital. Investors and entrepreneurs complete applications outlining their respective needs. Entrepreneurs must have a completed business plan to apply. There is an annual participation fee of $395 for entrepreneurs. Investors are sent investment opportunities that meet their criteria. Entrepreneurs are introduced to investors expressing further interest in their project. For more information contact CCA at P.O. Box 19169, Boulder, CO 80308-2169 or call (303)499-9646.
- **Venture Capital Firms**
  These are the most-risk oriented investors. Most venture firms have specific investment preferences - both in terms of business stage (ranging from seed stage to buyouts and acquisitions) and industry. In addition, venture capitalists generally have a large minimum size investment requirement. They are looking for rapid growth and high returns. The most important factor a venture capitalist considers is the management team and the ability to recapture his/her investment with a substantial return within five to seven years. Venture capital is typically available to less than one-half of one percent of all new businesses.

SBA's Venture Capital Programs

- **Small Business Investment Companies (SBICs)**

  These companies provide equity capital, long-term loans, debt-equity investments and management assistance to small businesses, particularly during their growth stages. The SBA's role consists of licensing the SBICs and supplementing their capital with U.S. government-guaranteed debentures or participating securities. SBICs are privately owned and managed, profit-motivated companies, investing with the prospect of sharing in the success of the funded small businesses as they grow and prosper. For more information, check out: www.sba.gov/financing/investment. html

- **Private Or Limited Stock Offerings**

  This is a form of equity financing that may be ideal for the small company. It affords the company the opportunity to raise significant amounts of equity from outside investors without the high cost and regulatory burden of a full-scale public offering of stock. These sales are still subject to some state and federal regulation, and you must make sure they comply with all the provisions that exempt them from the more rigorous registration process involved in a public offering. Your private offering must consist of equity, debt or a combination of the two. The private placement may be sold to wealthy individuals, venture capital firms or institutional investors, such as insurance companies, pension funds, trusts or mutual funds. Institutional investors prefer to purchase private placements in the form of debt instruments since they prefer to receive a fixed, relatively safe return on their investment due to their fiduciary responsibilities.

- **Going Public**

  While not many small companies elect to go public, offering shares of stock in the company to the general public, it is certainly an option for the profitable, well managed, growing small business. There are several reasons why you might decide to go public. It gives the business access to growth capital and can allow you to cash in your equity in the company. Through the growth in the equity base, the business can be leveraged to allow for increased borrowing capacity. Public market funds are not restricted and more attractive incentive plans can be structured. It can also enhance your reputation. However, the negative aspects of going public include the loss of control of your business and increased pressure to grow and produce greater earnings. There may be pressure to shift your business' emphasis to increase stock value over generating a profit. There will be increased documentation, reporting, regulation and higher legal and accounting expenses. The public offering process is expensive and time consuming.

Andrew Seaton
AVP/Loan Officer

Angie Smith
Loan Officer

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Aurora, CO 80012
303.343.8888

Colorado Springs Branch
1867 S. Academy Blvd.
Colorado Springs, CO 80916
719.596.8888

Alameda Branch
2480 W. Alameda
Denver, CO 80223
303.975.8888

LIABILITIES AND INSURANCE

Before starting your business, you should be aware of the potential liabilities which may be incurred when operating a business. You should look into what types of insurance may be required or may be in your best interest to protect your investment, business property and business income. Insurance companies can put together a specialized insurance package to meet the exact needs of your business. While it often makes good business sense to purchase various forms of insurance coverage, don't buy what you don't need! Here are some general types of insurance that you may want to consider.

BASIC BUSINESS LIABILITIES

When you operate your own business there are a number of different liabilities that may be incurred as part of your business operations. If your business has employees, the business is liable for the timely payment of all payroll taxes. If you collect sales taxes, they must be remitted properly. If either payroll or sales taxes are not paid, the government may seize the business and sell assets to collect the taxes due. Your business may also be held liable for injuries to your employees and your customers that occur at your work place or due to products you manufacture. The business may incur liabilities whenever there is a contract for the performance of services or for the purchase or sale of products. Your personal liability will be determined by the legal structure of your business and/or personal guarantees you make on behalf of the business.

ENVIRONMENTAL LIABILITIES

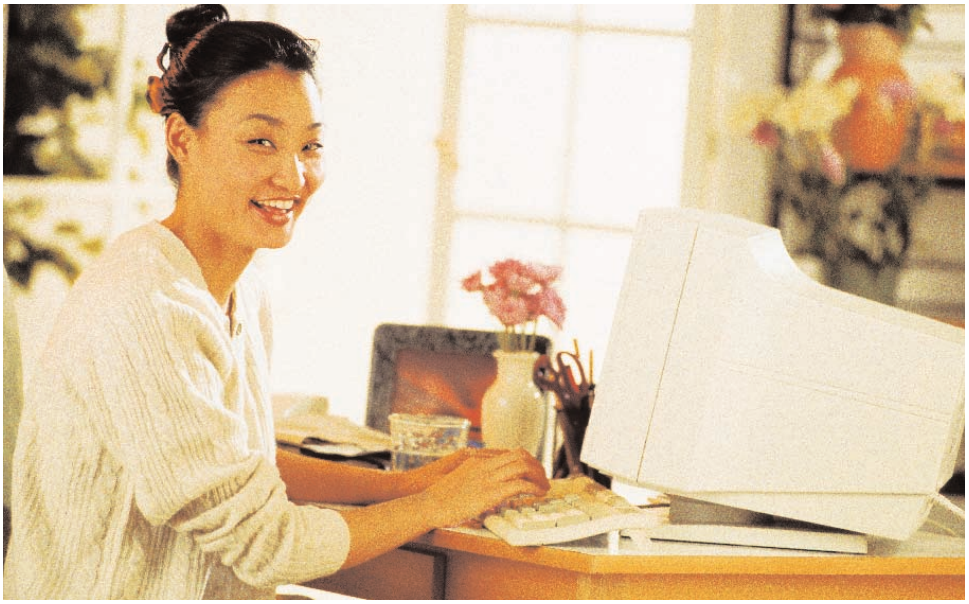
Small businesses that produce hazardous waste are required to obtain proper permitting, registration and disposal under federal and state guidelines. As a business owner, you should be knowledgeable regarding the materials you use and produce as part of your business operations. If you are purchasing an existing business, the liabilities for the previous owners' operations may be transferred to you. If you are purchasing real estate that was used by a business using/producing hazardous materials, you may be held liable for any contamination as the new owner. It is important that you are aware of all regulations regarding environmental liabilities to protect your investments and the operation of your business.

Pollution Prevention

Prevention means reducing pollution at its source by substituting less polluting materials or by changing the process or the equipment used so that pollution and waste by-products are reduced or avoided. The Colorado Department of Public Health and Environment (CDPHE), Pollution Prevention (P2) Program helps businesses identify alternative production processes, changes in raw materials and alternative technologies to reduce pollution. The use of these alternative work practices may reduce your emissions and waste to the point where permits or other regulatory requirements are no longer necessary. For P2 technical information or assistance call the CDPHE, Pollution Prevention Program Office at (303) 692-2977 or (303) 692-2186.

Solid Waste and Hazardous Materials

The CDPHE Hazardous Materials and Waste Management Division regulates solid and hazardous waste. Businesses that may need to comply with waste regulations include, but are NOT limited to, photochemical processing stores, auto repair shops plus any business that uses and disposes of batteries and florescent light bulbs. To determine if your business must comply with waste rules and regulations call the Division's public assistance hotline at (303) 692-3320. This service will help you ascertain if your business is required to comply with any waste regulations and answer any questions you have on hazardous and solid waste.

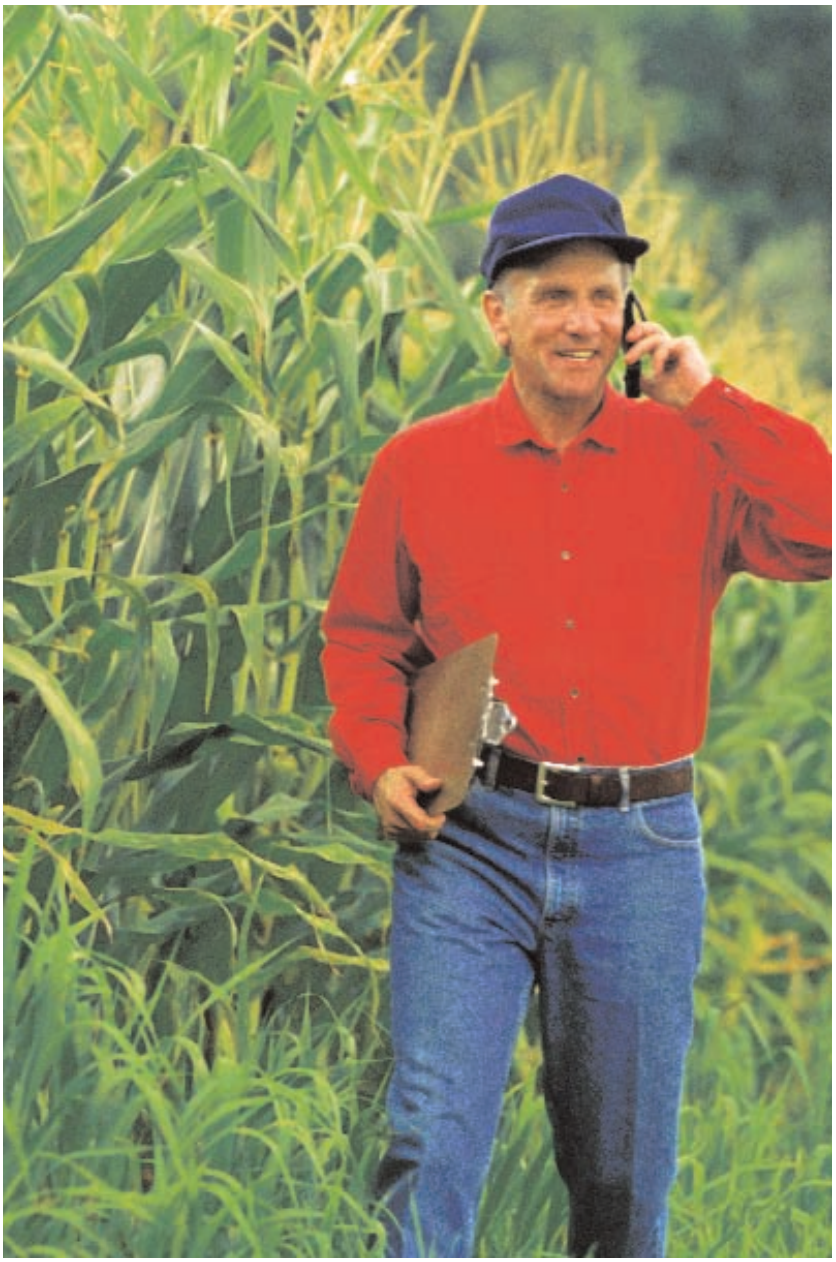


Water Pollution and Drinking Water Quality

The CDPHE Water Quality Control Division manages water quality in Colorado. Two types of activities are regulated by the Division that are applicable to small businesses: 1) discharges of wastewater or stormwater runoff, and 2) compliance with regulations for public water systems. Any discharge of pollutants (ranging from pumping ground water from an excavation to pouring out water used in industrial processes) may require a permit. In addition, industrial sites and construction sites may need permits to control pollutants washed off into storm runoff. Public water systems that provide drinking water to 25 or more people for more than 60 days of the year, must comply with the Safe Drinking Water Act and the Colorado Primary Drinking Water Regulations. For more information and assistance on whether or not your business needs to comply with water quality regulations, call the Water Quality Control Division at (303) 692-3500.

Air Pollution

The 1990 Federal Clean Air Act Amendments expanded the number and types of businesses that must comply with air quality standards. Businesses that may need to comply with air quality regulations include, but are NOT limited to, dry cleaners, print shops, refrigeration and air conditioning services, furniture manufacturers, feedlots and cement/asphalt companies. As a small business, you may be required to file for an Air Pollution Emissions Notice (APEN) and possibly obtain a permit under the "Colorado Pollution Prevention and Clean Air Act." Whether or not your business needs to file an APEN depends on the amount and type of annual air emissions produced and the location of your business. Once your APEN form is completed and submitted to the CDPHE Air Pollution Control Division it is used to determine if your business must obtain a permit. There is a $119.96 fee for filing an APEN. However, businesses may be subject to fines of up to $500 for failing to file APENs and up to $15,000 per day for failure to obtain a permit. The Division provides technical assistance to small businesses through the Small Business Assistance Program (SBAP). The SBAP has developed "how to" documents to help businesses calculate their emissions. They also have developed some industry specific APEN forms. The SBAP can assist your business in understanding and complying with air pollution requirements. For information or assistance call the SBAP at (303) 692-3175 or (303) 692-3148 or go to the web at www.cdphe.state.co.us/ap/sbap.asp



HEALTH INSURANCE

Employers are not required by federal or state law to provide health coverage to their employees. However, if you do provide health benefits, certain laws will determine the nature of the plan and how it is administered. In Colorado, group insurance policies are required to include newborn coverage, maternity, complications of pregnancy, mammography screenings and mental health benefits and other mandated benefits. When an employee is terminated or leaves the job, federal and state laws

require the employer to notify the employee of his/her right to continue coverage with the group at his/her own expense. The right to continue generally extends for 18 months or until the individual is eligible for other group coverage, whichever comes first. This right to continue applies to dependents covered under the group plan as well as the employee. If the group consists of 20 or more employees, the federal COBRA laws govern continuation coverage, while groups with less than 20 employees can claim continuation rights under state insurance law. For more information on COBRA contact the U.S. Department of Labor, Pension and Welfare Benefits Administration, 1100 Main St., Suite 1200, Kansas City, MO 64105, (816) 426-5131.

Small Group Health Insurance Rights

Over the past several years, Colorado has passed some tough new laws designed to provide small employers with increased coverage, premium and benefit protections. If you have 50 eligible employees or less, you have the right to purchase small group coverage under most circumstances.

- For a small employer with 2 to 50 eligible employees, coverage must be provided from any small group carrier in the state. Health carriers must issue a small group plan if you satisfy the provisions of the plan and agree to make required premium payments. This is true for all small employers regardless of occupation or the health of the group.
- If you are a self-employed business group of one who applies for and is declined coverage under any of a carrier's small group plans, the carrier must offer you the opportunity to purchase a Standard or Basic Health Plan during your open enrollment period, which is 30 days following your birth date. Copies of the Basic and Standard Health Benefit Plans may be obtained by writing the Colorado Division of Insurance, 1560 Broadway, Suite 850, Denver, CO 80202, (303) 894-7490 in the Denver metro area, or (800) 930-3745, statewide.
- A health carrier who sells you any of its health plans must offer to cover all eligible employees regardless of their health.
- If your policy was issued or renewed after January 1,1997, the only factors a health carrier may use in setting premiums for your group are specified case characteristics (i.e., age, geographic location, and family composition of persons covered under your plan.) Claims experience, health status, industry and gender are all eliminated as factors.
- Health carriers cannot exclude coverage of certain conditions for individual employees through policy riders.
- Insured employees and dependents have the right to convert to a Standard or Basic Health Benefit Plan when they exhaust continuation coverage.
- Health carriers are also required to renew your coverage if you want it renewed. As long as you continue to meet participation and contribution requirements, they cannot cancel your policy unless they pull out of the Colorado market segment (i.e., individual, small or large group) entirely or you commit fraud, abuse or fail to pay your premiums.
- If you change health carriers, the new carrier must cover everyone who was covered under the old policy. Health carriers cannot "dump" high risk eligible employees or dependents.
- The maximum period during which a health carrier can exclude coverage for a health condition that existed prior to the effective date of coverage is 6 months, or 12 months for Business Groups of 1, effective January 1, 2003.
- Health carriers are required to give every person covered under a small employer plan "credit" for any pre-existing condition exclusion period already met under a prior plan if no more than 90 days have lapsed between coverages.
- Health carriers must explain in their sales and solicitation materials how they calculate premium rates.
- Health carriers must allow qualifying employees and dependents no longer covered by a small group plan to continue coverage for up to 18 months at their own expense or until they become eligible for other group insurance, whichever occurs first. For more information on your rights as a small business or assistance with other issues concerning employee health insurance and state insurance laws, you may contact the Consumer Section of the Colorado Division of Insurance at 1560 Broadway, Suite 850, Denver, CO 80202, (303) 894-7490 in the Denver metro area or (800) 930-3745 statewide or visit their internet site at www.dora.state.co.us/insurance

Health Care Cooperatives

The Health Care Cooperative Law was passed in 1994, in response to a rising number of uninsured among the employees of small employers. These groups traditionally faced high premiums and numerous pre-existing condition exclusions, causing many small employers to forego offering insurance as an employee benefit. A health care coverage cooperative is made up of two or more employers that obtain a certificate of authority from the State of Colorado to join together to buy health insurance. The cooperative contracts for coverage on behalf of its employer-members and offers a choice of insurance carriers and benefit plans to employers or employees. The cooperative may also perform administrative functions such as premium collection and distribution, enrollment and disenrollment and production of employee information materials. In most cases, a cooperative will charge members a small fee to cover administrative costs. Rather than contracting with a variety of health insurance carriers, an employer simply signs up with a cooperative and has access to all the cooperative's health plans and administrative services.

Who Can Join a Cooperative?

Any employer can join, but there are special protections for small employers. A small employer is defined as having 1 to 50 employees or being a sole proprietorship. Cooperatives are not required to accept large employers, but they must accept any small employer. Employers may join a cooperative at any time. Interested employers or employees should contact the Colorado Department of Health Care Policy and Financing, 1575 Sherman St., Denver,

CO 80203, (303) 866-2993, for a list of certified cooperatives. To join, an employer simply has to sign up with a cooperative that provides coverage in the employer's geographic area. The cooperative probably won't collect administrative fees until premiums are collected. In most cases, coverage will be available within thirty days.

How Would I Start a Cooperative?

Interested employers should contact the Department of Health Care Policy & Financing to obtain further information on the laws and regulations that govern the formation of cooperatives. The following technical assistance documents are available to potential cooperatives, a sample application for co-op certification, a sample health plan request for applications, cooperative ground-rules handbook and cooperative infrastructure handbook.

Questions to Ask

When shopping for health coverage, it is important to make sure you are actually buying the coverage you want and can afford. Employers and employees should make a list of their needs to compare with actual policy provisions. Listed are some key questions you should ask when shopping for coverage.

- **Coverage:** Ask about the nature and extent of coverage offered by different plans. Ask that coverage provisions be shown to you in the policy contract. What does the plan cover (scope of benefits)? What is not covered by the plan (exclusions)? Does the plan cover the treatments and services my employees want covered? Are any of the following nonmandatory benefits covered and, if so, to what extent: adult preventive care, substance abuse, organ transplants, vision care, dental care, prescription drugs, infertility counseling, durable medical equipment, etc.?
- **Costs/Premiums:** When comparing plans, compare benefits to find out why one plan is cheaper than another. Compare deductible and co-payment requirements. Are there limits on the amount of coverage for certain conditions or types of treatments? How much are the out-of-pocket maximums? What is the minimum amount that you must contribute (e.g., 50 percent of the premium)? Is this acceptable? Compare lifetime benefit caps on coverage.
- **Plan Types:** Compare the types of plans, including indemnity, preferred provider and HMO. How do benefit and reimbursement levels differ? How often can rates be changed?
- **Claims Payments:** What is the basis for paying claims under the policy? For example, if it is "usual and customary rates," find out exactly what this means. If pre-authorization is required, what is involved? Does it guarantee payment? If the plan normally pays less than what your doctor charges, who makes up the difference?
- **Plan Restrictions:** Are there restrictions on the use of providers and services under the plan? Are my employees comfortable with these restrictions? Will the list of restrictions be available to each employee and regularly updated?
- **Affordability:** What kind of coverage can I afford? How much coverage can my employees afford? How much can I lower the cost of coverage if I buy a health benefit plan with a higher deductible or higher co-payments?
- **Worse Case Scenario:** Investigate how much coverage different plans would provide under a worse case scenario (e.g., someone requires $100,000 in specialty care that only one very expensive hospital can provide, or needs $200 a month in either prescription or nonprescription drugs, or has a sports injury that requires long-term physical therapy, or develops a long-term chronic disease requiring continuing care). How much would a covered employee or dependent have to pay out-of-pocket under a worse case scenario?
- **Cost Containment:** Look at the cost containment features of different plans. Are any of the following cost containment approaches required: utilization review, separate deductible and out-of-pocket accumulations for in- and out-of-network benefits, alternate dispute resolution, managed care, etc.?
- **Customer Service:** Find out as much as you can about how the carrier performs customer service. Is this an established carrier? How long has the carrier been active in the small group market? Has the company had an unusually high number of consumer complaints? What happens when you call the carrier's customer service number?

USEFUL PHONE NUMBERS FOR ENVIRONMENTAL PROGRAMS

Air Pollution Emission Notice (APEN) forms
(303) 692-3150
www.cdphe.state.co.us

Clean Air Small Business Assistance Program
(303) 692-3175
www.cdphe.state.co.us/ap/aphom.asp

CDPHE Hazardous/Waste Division
(303) 692-3300
www.cdphe.state.co.us/hm/hmhom.asp

CDPHE Water Quality Control Division
(303) 692-3500
www.cdphe.state.co.us/wq/wqhom.asp

CDPHE Office of Pollution Prevention
(303) 692-3009
www.cdphe.state.co.us/ap/aphom.asp

Health Care Reform

In 1996, the 104th Session of Congress passed several health insurance reform issues that concern small business owners. The following key provisions of the Health Insurance Portability and Accountability Act for small business became effective January 1, 1998.

Increased Health Insurance Deductions

Currently the self-employed can only deduct 45% of their health insurance premiums from their income. According to this

new law, this deduction will increase to 80% over 7 years.

The phase-in is as follows:

2000 - 45%	2004 - 60%
2001 - 45%	2005 - 70%
2002 - 45%	2006 - 80%
2003 - 50%	

Medical Savings Accounts (MSAs)

Businesses with less than 50 employees, self-employed workers and the uninsured will be eligible to enroll in a MSA program. Currently not all persons with a high deductible health plan (HDHP) are permitted to make tax deductible contributions to these special medical savings accounts. If you do enroll in the allotted time period for an MSA plan you will be permitted to keep the plan even if Congress decides not to expand the eligibility. Individual contributions cannot exceed employee income and contributions for individuals are limited from 65% to 75% of the deductible of the HDHP. Before participating, employers should review the state health insurance laws for the allowance of high deductible insurance plans. See www,IRS.gov/pub/irs-pdf/p969.pdf.

Insurance Reforms

Federal law provides increased portability of health insurance by limiting the ability of group health plans to exclude or disqualify persons having a pre-existing condition from coverage. This means that individuals who lose or leave their jobs can maintain health insurance coverage, even if they are sick, by receiving "credit" toward any pre-existing conditions limits for prior coverage.

People who are denied coverage for a pre-existing condition by their new employer's health plan may still receive coverage under the previous employer's plan via COBRA. In the past, a beneficiary's right to COBRA ceased when they became covered under a new plan. With this new law, their right to COBRA will not be terminated if their pre-existing condition is excluded.

Employers will still be allowed to delay benefit coverage to new employees during a standard waiting or probationary period, often three months. For the purposes of determining "continuous coverage," employees would be considered continuously covered during this period.

INSURANCE PROTECTION

Other Types

- **Commercial Automobile Insurance:** Colorado law requires this coverage. Therefore, if you have any type of motor vehicle titled in the business' name, you must carry the insurance in the name of the business also.
- **General Business Liability:** This is the broadest form of coverage which can protect you against losses when injury, damage or even death results to another person or his/her property because of business negligence. You may be responsible for obligations covering medical and disability expenses and even death and funeral compensation to the dependents of one who has been injured. Your obligations may even extend beyond the general liability for which you assume you are responsible. Read the terms of the insurance contract carefully.
- **Product Liability Insurance:** If you manufacture a product, product liability insurance can also cover the goods you produce. Coverage usually applies once you have given the product to someone else who will modify or alter it in some way or distribute it for wholesale or retail sale. Insurance coverage typically relates to the product itself, but may also protect you, as the manufacturer, should someone experience personal injury or property damage from the use of your product.
- **Completed Operations Insurance:** If you are a contractor, you can become insured for events that may occur after you leave the job site. Problems which may be covered include personal injuries or damage to someone's property as a result of something worked on going wrong. This is called Completed Operations Liability Insurance.
- **Property Insurance:** This covers the property the business owns, both building and contents. It can also cover property of your customers. You can be protected against losses in the event your business is damaged as a result of natural disaster, fire, burglary or vandalism that may destroy all or part of your property.
- **Business Interruption Insurance:** (Also referred to as "Specific Time Element Coverage"). This can pay losses of income as a result of property damage that might occur to your business from either environmental factors, natural disasters or destruction by others, until you are able to begin operating again. Coverage limits will vary and are only for the amount of actual losses. Limited coverage for a specific amount of time and a specific amount of reimbursement (for example, coverage could be purchased for a 30, 60, 90 or 365 day period and would reimburse you for 50 percent of your profits) can help pay for

THE FOLLOWING ARE ONLY A FEW EXAMPLES OF BUSINESSES THAT MAY BE SUBJECT TO ENVIRONMENTAL LIABILITIES AND REGULATION:

- Auto shop products, including batteries, gasoline, oil, paint and tires
- Bakeries, canneries, meat packing plants and other food processors
- Breweries and distillers
- Cement, asphalt, tar and other "paving" materials
- Chemical manufacturers and processors
- Dry cleaners
- Furniture manufacturers
- Explosives manufacturers
- Lumber mills and paper products producers
- Medical laboratories
- Plastics and synthetics materials manufacturers
- Paint shops and manufacturers
- Pest control
- Print shops, publishers, photo finishing and copiers
- Refrigeration and air conditioning manufacturing/repair.

your ongoing business expenses.

- **Inland Marine Insurance:** This can cover specific high value items, such as a computer, or any property item which has some mobility, such as a motor truck cargo, and contractor's equipment. It can also cover your property while it is away from your business premises.
- **Errors And Omission/Professional Liability Insurance:** This is often recommended for employees, owners and directors of the business. Errors and omissions and professional liability coverage offer protection for employees and owners of the business against lawsuits that may arise as a result of their actions, or inactions, for duties performed during the course of business.
- **Bonding:** This is not an insurance contract. However, there are several types of surety bonds that you can purchase which cover a wide range of losses. Fidelity bonds are designed to protect a business or employer from losses due to the dishonesty of employees, partners or officers in the business. However, the amount of coverage may be limited so you should check with your insurance agent as to the specific amount of coverage necessary.

Performance bonds guarantee a business' performance because of an obligation or contractual agreement. If you default on a contract or agreement to do work, a performance bond will guarantee payment to the person who has contracted with you for the remaining work. State and/or local laws frequently require that certain occupations (such as construction workers or motor vehicle dealers) post a bond before they can be licensed or before they are awarded a state contract. Bonding is usually not mandatory. However, many private companies require that you also post a bond before beginning work. The previous are very broad classes of insurance needs you may want to consider. The particular insurance needs of your business may vary. There is not a single, all-inclusive package that will apply to everyone. To best meet the individual needs of your business, you should consult an insurance agent or broker who is qualified to go over the various options available to you. Insurance companies frequently offer small businesses packages of coverage in one policy. These package policies, which go by different names, sometimes offer coverage which can't be purchased separately, and usually are offered at cheaper rates than if the coverage were purchased individually. You can add specific coverage which you need or increase limits, to offer the protection levels necessary to cover your business exposure.

- **Unemployment Insurance And Workers' Compensation Insurance:** This is required by law if you have employees in your business. Refer to the Employer Responsibilities chapter of this Guide.

THE COLORADO DEPARTMENT OF TRANSPORTATION

DOT
DEPARTMENT OF TRANSPORTATION

CDOT Center for Equal Opportunity: 303-757-9303
CDOT Business Programs: 303-757-9234
CDOT Office of Certification: 303-512-4140

TRADEMARKS, COPYRIGHTS AND PATENTS

Trademarks, trade secrets, copyrights and patents are all ways to protect your work. This chapter will help you determine which type of registration you need and where it can be registered.

TRADEMARKS

What is a Trademark?

A trademark is a word, name or symbol used to identify your goods or services to distinguish them from those sold by other people. It indicates who made the product and, through advertising, should guarantee the quality of the items with the mark on them. A trademark allows the holder to prevent anyone from using a trademark that is substantially similar for the same goods or services. Remember, a trademark identifies a product or service; a trade name identifies the business. A trademark will NOT prevent new businesses from registering the same name with the Department of Revenue or the Secretary of State. The business owner must pursue private legal action to enforce his/her rights to the registered trade name.

How are Trademark Rights Established?

In Colorado, you may not register the trademark until you have actually used it in your business. On the federal level, you may file based on a good faith or bona fide intention to use the mark. However, it will require additional paperwork and fees when it is placed into use.

What are the Terms of the Trademark?

Trademarks registered in Colorado are valid for ten years and may be renewed for an additional ten year term, as long as the goods and services are still being used in the business.

Trademarks registered with the federal government are valid for ten years. Between the fifth and sixth year, you must file an "affidavit of use" to certify that you are still using the trademark in commerce. Every ten years you may file an "affidavit of renewal."

TRADE SECRETS

What is a Trade Secret?

A trade secret is a property right recognized by the government with regard to confidential information. A trade secret may be kept forever as long as the information is kept in confidence and is not available through a public source. A trade secret may apply to an idea, its description or any product or service that holds value as a result of it being held in confidence and thereby creating an advantage over those who do not have access to the secret. A trade secret represents a limited form of protection in that anyone is free to independently discover the secret or to determine the secret through analysis on any product in which the secret may be obtained.

Where do I Register a Trade Secret?

A trade secret is not registered with the government. It requires the existence of an in-house trade secret program. The program must include guidelines on who may have access to the information and controls to prevent unauthorized disclosure. The proper maintenance of a trade secret program may be expensive.

COPYRIGHTS

What is a Copyright?

Copyright is a form of protection provided by the laws of the United States to the authors of "original works of authorship," including literary, dramatic, musical, artistic, and certain other intellectual works. This protection is available to both published and unpublished works. Section 106 of the 1976 Copyright Act generally gives the owner of a copyright the exclusive right to do and to authorize others to

do the following:

- To reproduce the work in copies or phonorecords
- To prepare derivative works based upon the work
- To distribute copies or phonorecords of the work to the public by sale or other transfer of ownership, or by rental, lease, or lending
- To perform the work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, motion pictures and other audio visual works
- To display the copyrighted work publicly, in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work
- In the case of sound recordings, to perform the work publicly by means of a digital audio transmission

Where do you Register a Copyright?

You can receive an application form and more information by contacting the Copyright Office - Library of Congress, 101 Independence Ave. S.E., Washington, DC 20559-6000, (202) 707-3000 or visiting the U.S. Copyright Office on the Internet. The address is www.loc.gov/copyright/

PATENTS

What is a Patent?

A patent is a government granted property right to control a technology for a period of 20 years. It allows you exclusive rights to exclude others from making, using, offering for sale or selling the invention in the United States, or importing it into the United States. Patents may be issued for items which are new, useful and non-obvious. We all have options! Business owners must determine the best method for protecting their ideas, products and inventions. These types of protection or registrations are not required but are optional!

What can be Patented?

A patent may be granted for any machine, process, composition of material or design that is novel, non-obvious and useful.

A machine is defined as any piece of equipment, whether mechanical, electrical or hydraulic. A process is defined as any method or procedure for obtaining a given result. A composition of matter includes any combination of matter in the form of a chemical compound, a metal alloy or a ceramic composite. A design would involve a shape or arrangement.

Novelty means that the item is one of a kind, never previously constructed or conceived. Non-obvious means that the item represents a leap forward beyond the expected progress within a field of science. Useful means that some benefit must be derived from the item.

WHERE DO YOU REGISTER A TRADEMARK?

Trademarks are registered with the Colorado Secretary of State if your mark is used in Colorado. If your trademark will be used in more than one state, it may be registered with the United States Patent and Trademark Office.

Colorado
Colorado Secretary of State
Division of Commercial Recordings
1560 Broadway, Suite 200
Denver, CO 80202-5169
(303) 894-2200
TDD (303) 869-4867
www.sos.state.co.us

Federal Government
United States Patent and Trademark Office
2900 Crystal Dr.
Arlington, VA 22202-3513
(703) 308-9000
1-800-786-9199
TDD (703) 305-7785
www.uspto.gov/

Along with the written application, you must submit:

- A drawing of the mark (must be on 8-1/2" x 11" inch paper).
- Three facsimiles (neither may be larger than 4 inches or smaller than 2 inches).
- The filing fee is $50.00 for Colorado and $325.00 for US.

Where do you Apply for a Patent?

A patent is obtained by application to the federal government. The application is a statement of the invention and how it works with any diagrams or artwork. The application must include a claims description with enough detail to allow anyone trained in the appropriate field of science to reproduce the item.

Before requesting a patent, you must search the list of existing patents to see if someone else already has patented a similar invention. The Denver Public Library, Business and Government Documents Section, 10 W. 14th Ave. Parkway, Denver, CO 80204, (720) 865-1111, has lists of all existing patents. Only attorneys or agents registered with the U.S. Patent and Trademark Office may represent inventors before the office. You may receive an application form by contacting The U.S. Commissioner of Patents & Trademarks, Washington, DC 20231, (703) 308-4357 or 1-800- 786-9199 or download it straight from the Internet at www.uspto.gov/

Along with the written application, you must submit:

- A description of the invention
- A drawing
- An oath testifying you are the original creator of your invention
- An application fee (which varies depending on the type of patent)

How Much Will it Cost to File a Patent?

The time and expense required to obtain a patent may be great relative to its value. The average time to obtain a patent following the submission of the application is about 24 months. The average cost for filing a patent may range as high as $5,000 to $10,000. Although the monopoly control of the patent has potential for large financial gains, a patent does NOT guarantee commercial potential or profits.

What is the Term of a Patent?

Patents are granted for 20 years, except for certain ornamental designs which may be issued for a term of 14 years. The patent grants the holder the right to exclude anyone else from using the technology for the life of the patent.

Where do I Get Additional Information About Patents?

- "General Information Concerning Patents" is available from the U.S. Government Printing Office at 1660 Wynkoop St., Ste. 130, Denver, CO 80202-1144 or call (303) 844-3964.
- United States Patent and Trademark Office General Information Seminars, Washington DC 20231, www.uspto.gov.

IMPORTANT CONTACT INFORMATION

Colorado SBDC Business Hotline
(303) 592-5920
www.advancecolorado.com
www.coloradosbdc.org

Colorado Department of Personnel-and Administration
Division of Purchasing
(303) 866-6100
www.gssa.state.co.us
(303) 866-6104

Colorado Department of Agriculture
Division of Markets
(303) 239-4114
www.ag.state.co.us

Colorado Department of Public Health and Environment
Air Quality Pollution Control Division
(303) 692-3150
www.cdphe.state.co.us/ap

Consumer Protection Division
(303) 692-3620
www.cdphe2.state.co.us/cp

Hazardous Materials & Waste Management Division
(303) 692-3300
www.cdphe.state.co.us/hm/

Water Quality Control Division
(303) 692-3500
www.cdphe.state.co.us/wq/

Colorado Department of Labor & Employment
Labor Market Information
(303) 318-8852
www.coworkforce.com/lab/

Labor Standards Office
(303) 318-8441
www.coworkforce.com/lab/

Unemployment Insurance
(To file for benefits)
(303) 318-9000
www.coworkforce.com/uib

Division of Workers' Compensation
(303) 318-8700 or 1-888-390-7936
www.coworkforce.com/dwc/

Colorado Department of Local Affairs
Enterprise Zones
(303) 892-3840
www.advancecolorado.com

Local Demographics
(303) 866-2771
www.dola.state.co.us/demog

Colorado Department of Revenue
Forms and Publications
(303) 238-FAST (3278)

Sales Tax License and Exemption Certificate Verification
(303) 238-FAST (3278)

Sales Tax Rates
(303) 238-FAST (3278)

Tax Information
(303) 238-SERV (7378)
www.taxcolorado.com

Colorado Department of Transportation
Business Program Office
(303) 757-9234 or 1-800-925-3427
www.dot.state.co.us/eeo/bpindex.htm

Secretary of State
Corporations Section/ Uniform Commercial Code.
(303) 894-2200
www.sos.state.co.us

Internal Revenue Service
Tax Information/Forms and Publications
1-800-829-1040
www.irs.gov

Colorado Office of Economic Development and International Trade
(303) 892-3840
www.advancecolorado.com

Colorado Office of Certification
Disadvantaged Business Enterprise Certification
(303) 512-4140
www.dot.state.co.us/EEO/CERTIFICATION/ocindex.htm

U.S. Small Business Administration
(303) 844-2607
www.sba.gov

U.S. Department of Commerce - Census Bureau
(303) 969-7750 or 1-800-852-6159
www.census.gov

U.S. Department of Labor & Employment
Division of Labor Management Standards
(303) 318-8441
www.dol.gov

Wage & Hour Division
(720) 264-3250
www.dol.gov

State Government Directory
(303) 866-5000
www.colorado.gov

Federal Government Directory
1-800-688-9889

Denver Business Assistance Center
(720) 913-1999