

Think big when running your small business

By Melissa Sayer, NCHC

Many small businesses are formed using some type of entity such as a corporation, limited liability company or limited partnership. This is often for estate or succession planning purposes or to accommodate more than one owner. The most common reason is liability protection for the owner's personal assets.



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Creating the entity is only the starting point for liability protection. An entity can only serve as a firewall for the owner's personal assets if it can be shown that the business acted and operated as a legitimate stand-alone entity. I tell my clients "Think Big." If Bill Gates would not do it, you probably should not do it either. Small business owners often inadvertently weaken the liability protection offered by an entity by failing to "act" like a separate entity. The two most common problems for small business owners are commingling assets and failing to follow corporate formalities.

Business assets should always be kept clearly separate from personal assets. Are you using your

company's assets as your own personal bank account? Worse still, is the business picking up the tab for expenses which are clearly personal? If so, a court may find that the company is merely an "alter ego" of the owner, and "pierce the corporate veil" in order to go after personal assets. You can borrow money from or lend money to your business, you just need to make sure to adequately document the loan and charge minimum interest.

All businesses, whether large or small, are required to follow certain corporate formalities. Are you properly electing management? Are you getting appropriate approval for major transactions? These requirements often exist even if you are the only owner of the business. Following corporate formalities does not have to be a pointless exercise in paperwork. As a businessperson, you no doubt review management and the state of your business on a regular basis. Keeping a written record of these reviews can not only serve as the starting point for your corporate records, it can serve as a great management tool.

Remember to Think Big. The reason that your personal assets are protected is because the business is not you individually; it is an entity entirely separate and independent from you. If you do not respect that boundary, then neither will someone seeking a judgment against your business.

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