Shani Abromowitz
SOS - E4E Edible Landscaping
Winter, 2017
E$E W6 (W8) Recap

This week at Enterprise for Equity the class was privy to two guest speakers. The first, Shawn Walsh, was a lawyer who spoke to us about different legal entities and the pros and cons of each. The second was an insurance agent by the name of Steve Smythe. Steve talked about the different types of insurances and liabilities. We ended the night with a run through of the expected taxes each of the involved businesses will be obligated to pay.

Shawn Walsh was a very formal speaker. He kind of focused on the wrong legal entity, but it was all good information. Shawn legal entities down to the: who owns the assets, who's the investors, and who's at risk if something goes wrong? **Sole Proprietors** (like me) are businesses which are identical to the business owner - that is to say that the business's assets are the owners assets. If the owner goes bankrupt, so does the business. If the business is in debt, so is the owner. It's the owner who invests, who shares the profits, whose assets are at risk. To sue the owner is to sue the business. That's me, I'm a **sole proprietor. Partnerships** create businesses where each partner does business to benefit the other partner. Unless otherwise stated, partners can't do anything without consulting each other, and if one partner agrees to something, it's as good as all the partners agreeing. Each partner brings something to the business and each get something of equal, or otherwise agreed on, value, and each have personal assets put on the line if something happens. If someone sued the **partnership** they could possibly glean the settlement out of the business's assets, then move on to taking assets from the richest partner, and move down the line until each partner has had their assets seized. **LLCs** are like **partnerships**, in that they're not **sole proprietors**. The difference is if someone sues the **LLC** the settlement will only eat from the business's assets, vs overflowing into each partner's' assets. This is an obvious appeal.

Now if we switch gears to think about things on a bigger scale, you'll begin to move into **corporations. Corporations** began in the time of kings. Kings would appoint certain common folk to do business for the king. These people doing kingly business were called corporations- they had the sovereign immunity typical of a king because whatever they did was on behalf of the king. If the corporation's appointed job was to take 1/10th of each citizen's yearly grain for an emergency stockpile, it wasn't considered theft- it was considered the will of the king through the hands of the corporation. Nowadays, **corporations** have investors who put assets into the business in return for a cut of the profit. Because the investors do this, they essentially own the business they've invested in. Investors appoint boards packed with people who guide the business with the investor's best interests in mind. This is very important: **corporations** are legally obligated to maximize profits for their profit sharers by any means necessary, within law. Why do some corporations treat their workers poorly, or the environment poorly? They are trying to please their shareholders. The board appoints people to do whatever job they say; need an officer of the color purple? The board is the group that appoints that officer. These appointed jobs and employees trickle down to the faces of the corporations, the people like you and me, working for otherwise faceless corporations.

Finally, the most exciting and newest legal entity- the **Social Purpose Corporations**. These **SPC**s are very special; they're like **Corporations** except because it's stated somewhere in the documents identifying the **SPC** that the **SPC** acts for social or environmental causes, they are not obligated by the law to maximize shareholder profits. If the **SPC**'s mission was to disperse pencils to children in need and they've declared themselves as an **SPC**, then they could be operating with a 1% margin and making absolutely no money, and the shareholders wouldn't be able to do anything about it. The shareholders invested in the **SPC**, they knew what they were investing in because the **SPC** made their mission clear and declared themselves as an **SPC**, the shareholders aren't due any profit. I find this legal entity to be very cool. Well that was legal entities, now it's on to insurance.

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Steve Smythe is a pretty approachable guy. He works for Country Insurance and has made himself available for any of the students at E4E for free consultation. He, dare I say, made me trust insurance companies a little bit. Is that part of the sales pitch? Smythe talked about **Commercial** insurance and **Farm and Ag** related insurance. To qualify for **Farm and Ag** insurance the business needs to gain 25% of its profits from selling food which it cultivated. Since I won't be doing that for my Edible Landscaping business, I fall into the **Commercial** insurance category. The **Commercial** insurance covers **Bodily and General Liability, Product Liability, Equipment, and Structures**. **Bodily and General Liability** insurance protects me from other people getting hurt because of me. If I'm carrying a rake and I turn around and whack somebody's fake eye out, they could sue me- but they'd have to go through my insurance agency and its many lawyers to do so. **Product Liability** is less of a concern for me because I don't produce anything immediately consumable, like donuts. If I did and there were a wire or something in the donut, and the customer didn't like the flavor of the wire, they could possibly sue me. However, because I'd have the **Product Liability** coverage, they'd have to go through my insurance company and its many lawyers to do so. This **Product Liability** coverage is relevant to my products only as far as the direct blame of a harmful product can be placed on me. For instance: if I planted a lead accumulating plant on soil rich with lead, and the plant produced toxic fruit that the client then consumed and fell ill to, they could possibly try to sue. To mitigate this risk I'm going to have it as a standard procedure to take soil samples to send to a lab and do my own basic analysis. The **Equipment Liability** covers damage or theft of the equipment, which could be useful for the expensive stuff. The **Structure Liability** protects any buildings under my care from freak accidents, natural disasters, and acts of god- it's like a belated forcefield, or a regenerative force field, because it doesn't actually protect against anything: you have to have damage incurred before you see any return. Which seems a little flawed, you'd think insurance agencies would be pioneering force field technology to save the millions of dollars of coverage they have to spend in retroactive dealings. The price premiums of **Commercial Insurance** depends on what the business earned in profit the year prior, which for me would be very cheap. Steve explained insurance like this: You don't need insurance. It's against the law to not have insurance. J-Walking is also against the law and every time you do it, you're breaking the law. You're not in trouble though until something happens. Insurance is like J-Walking: illegal to go without, mostly unnoticed until something bad and expensive happens. It protects your assets basically- martial arts helps protect you from bodily harm, irrigation helps protect your crops from drought - insurance tries to protect your stuff, money and otherwise.

We ended the night looking at the different taxes our businesses would be obligated to pay. There are taxes at every level of sovereign rule: there's a tax for the city, county, state, and federal. By and by, these sovereign entities don't talk to each other, and they leave the burden of paying taxes and knowing the change in tax rules, on the business owners. This is part of why E4E is so great: we have a calendar giving us the times of the year these taxes are due, and they recommend planning for the highest tax bracket so that we never owe money. Now, we all know a business or two who does work and payment under the table- they don't pay taxes on that income. Being that the IRS and its synonymous entities within the state are by and large understaffed, not paying business taxes is like the J-Walking analogy: you can do stuff under the table and the IRS probably won't notice, but once you're on the radar, you don't get off. You pay back those years of tax-lessness and they'll make sure you do through many audits. Which is why it's important to keep receipts.

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Being that I'm a **Sole Proprietorship**, I'm only going to talk about how the following taxes affect my kind of business. So, going through each level of sovereignty and its taxes, there's:

- The **city's**
    - **B&O tax**: The City's Business and Operations tax are paid to the city in which business is conducted. They are calculated as a percentage of gross revenue generated within the city. The rates range from .1%-.2% of gross revenue and are due on a quarterly basis.
    - **Sales Tax Collection** doesn't take money from my business directly. Instead they take their cut from the state's Excise tax (see below).
- The **county's Business Property tax**: The Business Property tax is based on the business's land, building, furnishings, equipment, supplies, franchises, and trademarks, whose value is assessed by the county assessor based on the market value. This ranges between $11-$17 in tax for every $1000 of property. For me, maybe I'll hit $24 in Business Property tax. These taxes are due twice a year.
- The **State's**
    - **B&O Activities tax**: The Business and Operations tax is paid on a monthly or quarterly basis, and are assessed on gross revenue. The B&O tax rate can range between .1%-2.0%. My business is a service based business, and for soem reason is taxed at the highest rate- 2.0%. Why? Who knows. Now if I don't make $7000 in a quarter, $12,000 annually, if I don't sell anything at retail, if I didn't do any service of any kind to someone real or personal property, if I didn't collect or pay any other tax to the DOR, and if I don't need to renew any liscences, I'd be

exempt from this B&O tax. But because I do many of those things I do need to pay this tax.

- **Combined Excise tax:**
    - This tax is made of the **Sales tax** (retail, construction, and some services) rates at 8.4% of the price of the product. If I price my service at $45/hour and I work on a project for 30 hours, and I include the 8.4% sales tax, the final price would be $1463.40, whereas without the tax it'd be $1350. Howabout that. In Washington a portion of the sales tax goes back into the community. So if I'm selling my service somewhere out of Olympia, I need to calculate the sales tax that's appropriate for the city I do business in. However, it's like the J-Walking situation: you're not penalized until you're caught not paying these taxes.
    - **The Use Tax** also goes into the **Combined Excise tax**. This tax comes into play when a business pays equipment out of state and that state has a lesser tax rate than the home state. So fi I go to Oregon to buy a computer on the cheap, this Use tax says I need to pay the difference in sales tax back to Washington. This sales tax is 8.4%. If Oregon's sales tax is 3.0%, Washington wants me to pay the remaining 5.4% for the computer in my Excise tax. Make sense?

- **The Federal's**
    - **1040**: As an SP I need to fill out the 1040 tax form and make quarterly deposits of estimated income taxes and self-employment taxes, which comes to about 15% of that quarter's profit to pay for social security and Medicare. Here's hoping I'll be able to access those funds when I need them within this political climate.

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- **Schedule C**: The Schedule C is a Profit and Loss sheet. I spoke about P&Ls in the last two E4E synopses. The Schedule C informs the feds on how to tax me within the 1040 and Schedule SE-
- **Schedule SE**: The government would like to tax my profits based on my Profit and Loss sheet as a Self-Employment tax (SE), which is suppose to cover Medicare and Social Security.

As you can see the taxing system is built around Big business, not my rinky dinky SP. Because of this I'm stuck paying high percentages for the same purpose because obviously, if I'm running a business I have that money. It would be much easier if the taxes were taken out based on a sliding percentage appropriate to the end of year's profit. But what do I know, I'm not a politician.

To visualize these taxes, here's a small calendar taken from the E4E Business Planning handbook.

TAX	DESCRIPTION	DUE DATE	COMMENTS
Monthly			
Payroll Tax and Federal Withholding	If your payroll tax liabilities are more than $2500.00 a quarter, then you need to pay monthly	Due the 15th of every month.	Unnecessary for me
Quarterly			
L&I	If you have employees or if you take L&I for yourself.	April 30 July 31 October 31 January 31	I do not need L&I, this tax doesn't apply to me.
Employment Security Department	If you have employees	April 30 July 31 October 31 January 31	I don't have employees.
941	If you have employees or if	April 30	This doesn't apply to me.

	you are an employee of your company (like an SPC)	July 31 October 31 January 31	
Estimated Federal Tax Payment	Get this info from the CPA (or take the previous year's tax return and divide tax liability by 4 if you make 1040 ES payments).	April 15 June 15 September 15 January 15	I'm going to look into this one.
Monthly, Quarterly, or Annually			
State of Washington: B&O and Sales Tax	Based on gross sales. State determines whether you pay monthly, quarterly, or annually.	Get date from return.	I have to pay these and would like to pay them quarterly.
City Taxes	Based on gross sales. City determines whether you pay quarterly or annually	Get date from return	
Futa	Federal Unemployment. If your liability is over $500 then you need to report quarterly.	January 31	I'm pretty sure they're talking about my monthly insurance payment here, which is why I don't think it applies to me, as my insurance payments probably won't be that high.
Bi-Annually			
Thurston County	Based on office property including office supplies and equipment purchased.	April and October	

There you have it, that's the gist of the E4E happenings. For homework we have to figure out our:

- O Legal Entity status within the Business Plan
- O Insurance rates and present cover sheets and quotes
- O Present a tax narrative and calendar within the Business Plan

Until next week!

Shani A