

## Small Business Start up Guide



Compiled by the Southwestern Iowa Small Business  
Development Center

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# The Southwest Iowa SBDC

Serving Adair, Adams, Cass, Clarke, Decatur, Fremont, Harrison, Madison, Mills, Montgomery, Page, Pottawattamie, Shelby, Ringgold, Taylor, and Union Counties.

The Southwest Iowa Small Business Development Center provides free and low-cost counseling and training to the areas entrepreneurs. The SBDC counselors work with new business start-ups and expanding businesses

Services include assistance with

- Business Plans
- Market Research
- Marketing
- Financial Analysis/Cash Flows
- Government Procurement
- Government Regulations Compliance
- General Management & Personnel Issues
- Information Technology
- Forms
- Loan Application assistance
- Smart Start Classes
- Other business related courses

## Getting Started

Obtaining this Small Business Start Up Guide Along with the Business Plan Inventory is your first step to working with the SBDC counseling services.

1. Schedule a counseling appointment with a trained staff professional by calling 712-325-3350.
2. Prior to your appointment fill out a Request For Counseling Form included in this guide.. Forms are also available in Adobe on the website at [www.iwcc.edu](http://www.iwcc.edu). You can also request a form to be faxed or mailed to you by calling the center at 712-325-3350.
3. Prior to your appointment complete a partial business plan or the Business Plan Inventory complete with startup costs, a list of assets, monthly business expenses and an estimation of sales per month.
4. Or complete a Smart Start Class. Smart Start are 2 hour small business training courses that will be offered weekly in Council Bluffs and other locations beginning in early summer of 2004. The smart start curriculum follows the start up guide and business plan inventory in detail.

**NOTE:** For new business start-ups or new businesses, either step 3 or 4 must be completed prior to counseling (exceptions may apply). IF you are an existing business looking for help with expansions, cash flow projections, marketing plans, etc. simply contact the SBDC to set up your appointment.

# What to Do When Starting a New Business

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## Before Start-up

- Identify a business opportunity that suits your skills and preferences.
- Conduct research to assess the market conditions of your business.
- Assess the total amount of expenses you will incur at the place of business (rent, utilities, renovations, signs, etc.).
- Estimate the amount of the loan you need to borrow (at least 25-30% of total expenses should be funded with your own money).
- Write a business plan and develop financial projections to help assess the feasibility of the proposed venture
- Using the business plan, establish a relationship with a banker. Possible bank services include:
  - ◊ Credit-card merchant account
  - ◊ Business checking account
  - ◊ Working capital loan
  - ◊ Equipment loan
  - ◊ Lock-box services
- Select the legal entity and year-end
- Find a location for the business
- Negotiate a lease
- Design the layout of the facility
- Prepare all the necessary legal documents as applicable:
  - ◊ Partnership agreements
  - ◊ Articles of incorporation and first organizational minutes
  - ◊ Bylaws
  - ◊ Federal identification number (SS-4)
  - ◊ State and local license applications
  - ◊ Sales tax identification number
  - ◊ Industry-specific license
- Obtain quotes for and then order office furnishings and equipment
- Order office supplies
- Order business cards and business stationery
- Purchase adequate insurance:
  - ◊ Health
  - ◊ Malpractice
  - ◊ Liability
  - ◊ Workers' Compensation
  - ◊ Life
  - ◊ Fidelity bond
  - ◊ Computer and equipment
  - ◊ Umbrella
  - ◊ Employee dishonesty
- Register the business name with local and state authorities

## Start-Up

- Establish prices for your goods and services
- Promote the business's opening through:
  - ◊ Press releases to local and national media
  - ◊ Advertising
  - ◊ Direct-mail announcement
  - ◊ Other
- Seek, interview and make offers to job candidates
- Select and implement a financial record-keeping system
  - ◊ Accounts payable
  - ◊ Account receivable
  - ◊ Inventory tracking
  - ◊ Order entry

## Ongoing Operations

- Develop personnel policies and procedures
- Prepare quarterly payroll returns and verify timely tax deposits
- Prepare quarterly or monthly financial statements
- Perform year-end tax planning, at least one month before the year-end
- Prepare annual federal, state and payroll returns
- Develop employee job descriptions
- Review existing insurance coverage at least once a year
- Prepare and maintain personnel files
- Establish a petty cash fund and policy
- Establish answering mechanism for after hours
- Join industry associations and groups
- Verify listing in the yellow pages of area phone directories
- Register trademarks

# Legal Organizations

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Discuss with your attorney and accountant the appropriate legal structure for your business. Business owners have the choice among five basic legal structures:

- The Sole Proprietorship
- The Partnership
- The C-Corporation
- The S-Corporation
- The Limited Liability Company (LLC)

Factors to consider when choosing a legal structure:

- The amount of government regulations
- Transferability and continuity of ownership interest
- Management control
- Profit and loss distributions
- Liability of business owner(s)
- Ease of establishing and terminating the business
- Tax treatments

The following page contains a table that summarizes the main characteristics of each legal entity. This table format allows for a quick overview and comparison of the five legal forms of organizations available to business owners.

For detailed information, please refer to the following Web sites: IRS at [www.irs.gov](http://www.irs.gov)

	Sole Proprietorship	General Partnership	C-Corporation	S-Corporation	LLC
<b>Separate Legal Entity</b>	No. Personal and business assets and liabilities are merged together.	No. Personal and business assets and liabilities are merged together	Yes. The business is a separate legal entity.	Yes. The business is a separate legal entity.	It depends. No, if only 1 member. Yes, if at least 2 members.
<b>Ownership</b>	Only 1 owner	At least two partners	At least one shareholder	From 1 to 75 shareholders	At least 1 member.
<b>Legal Liability</b>	Unlimited	Unlimited	Limited to the investment contributed to the business.	Limited to the investment contributed to the business	Limited to the investment contributed to the business
<b>Tax Treatment</b>	Profits are taxed at the individual income tax rate and individual is also liable for self-employment tax.	The business itself does not pay taxes, but each partner records his/her share of profits on his/her personal income tax return.	Corporate profits are subject to double taxation both as income to the corporation and as dividends distributed to stockholders.	Corporate profits are subject to personal income taxation. Corporation itself does not pay taxes, but files an informational tax return mentioning each shareholder's portion of the corporate income.	If only 1 member, the business profits are taxed as in the sole proprietorship. If at least 2 members, the business profits are taxed as in the partnership. Unless set up as a corporation.
<b>Owners Compensation</b>	The owner can take an owner's draw	Depending on the partnership agreement, partners can receive a reasonable salary.	Managers can receive a reasonable salary.	Managers can receive a reasonable salary.	The member(s) can take an owner's draw if the LLC is set up as a sole proprietorship or receive a reasonable salary if it is set up as a partnership.
<b>Profit Distribution</b>	Profits after tax can be retained or distributed to the sole proprietor.	Profits after tax can be distributed to partners based on the agreement or can be reinvested in the company.	Profits after tax can be distributed as dividends or reinvested in the company.	Profits after tax can be distributed to shareholders based on their contributions or reinvested in the company.	One member, profits are distributed as in the sole proprietorship. Partnership rules apply if 2+. Unless set up as a corporation.
<b>Initial Filing Requirements</b>	The business owner must file with the Secretary of State in Des Moines.	The business owner(s) must file with the the Secretary of State in Des Moines.	The business owner(s) must file with the Secretary of State in Des Moines.	The business owner(s) must file with the Secretary of State in Des Moines.	The business owner(s) must file with the Secretary of State in Des Moines.
<b>Main Advantages</b>	Easy and inexpensive to start and terminate the business.	Ease of establishing. Single taxation.	Limited liability Large resource base Unlimited life.	Limited liability. Single taxation. Unlimited life.	Limited liability. Single taxation.
<b>Main Disadvantages</b>	Unlimited liability. Limited life.	Unlimited liability. Limited life.	Double taxation. Increased amount of paper work and expensive startup costs.	Restrictions on the number of shareholders and classes of stock. Lenders can require personal guarantee.	Lack of court experience in LLC litigation.

# Iowa Business Start-up Contact Information

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The information provided below is intended to help you find the answers to questions you probably have about getting started in a business. We have provided you with the agencies, their address and phone numbers to help you know who to call. If you are not sure which of the following apply to you, we recommend that you call that agency and talk directly to them. They will know what questions to ask to determine your needs.

## **TAXES**

In addition to the federal tax identification number, any business located in or transacting business in Iowa and paying wages or sales taxes must withhold Iowa State tax. An Iowa Sales Tax License must be obtained.

### **Iowa Department of Revenue and Finance**

Tax Payer Services  
Hoover State Office 4<sup>th</sup> Floor  
Des Moines, IA 50309  
(800) 367-3388\*

\*This 800 number will access you to the sales tax division and the state income tax division. You can get sales tax permit and the forms you will need for your Iowa personal taxes.

Website: [www.state.ia.us/tax](http://www.state.ia.us/tax) - apply for sales tax license online, download Iowa tax information, publications and forms. Register to withhold Iowa income tax from your employees and/or to make estimated tax payments as a sole proprietor. Information on Iowa taxes and class information.

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## (2) **Federal Tax Identification Number**

A Federal Tax Identification Number also known as an Employer Identification Number (EIN), is a nine-digit number that the IRS assigns to business entities. The IRS uses this number to identify taxpayers when filing various business tax returns. Your business is required to have this number whether you intend to have employees or not. The only exception is with sole proprietors without employees; they can use their social security number, however; keep in mind that suppliers may request a number other than your social security number. EINs are used by employers, sole proprietors, corporations, partnerships, non-profit organizations, trusts and estates, government agencies, certain individuals and other business entities.

### **Internal Revenue Service**

M-F 8:00 am—4:30 pm

210 Walnut Street  
1<sup>st</sup> Floor #1407  
Des Moines, IA 50309  
(800) 829-3676 or (515) 283-0523

Ask for a “Small Businessperson’s Kit” for a sole proprietorship, partnership, or corporation.

Website: [www.irs.gov](http://www.irs.gov) -Can apply for an Employer Identification Number (EIN) on-line, download federal tax forms and publications, and learn more about small business tax issues.

## EMPLOYEES

- (3) **Employee Standards Administration** M-F 8:00 am—4:30 pm  
Wage and Hour Division  
US Dept. of Labor  
210 Walnut Street #643  
Des Moines, IA 50309  
(515) 284-4625  
www.dol.gov/esa

-The Employee Standards Administration office and website offers information on labor laws. To see an excerpt from the Department of Labor's Small Business Handbook see next section in this handout.

- (4) **Worker's Compensation**—Contact your local insurance agent. Iowa law requires every employer to carry workers compensation for all employees, including part-time. Be sure you are complying with this law. If you are not sure if this applies to you, call the Worker's Compensation Service office at (515) 281-5934.
- (5) **Iowa Workforce Development**  
1000 East Grand Ave.  
Des Moines, Iowa 50319-0209  
(515) 281-3606  
(800) 562-4692

Website: [www.iowaworkforce.org](http://www.iowaworkforce.org) -Provides job placement to applicants, assistance to employers in recruitment, and referral of job applicants. Provides labor market information, OSHA information and enforcement, child labor laws, State Unemployment Tax Act (SUTA) information, how to apply, on-line application, and information about the program.

### Local field offices:

Omni Centré Business Mall  
300 W. Broadway, Suite 13  
Council Bluffs, Iowa 51503  
Phone: (712) 242-2100  
Fax: (712) 242-2155  
Jobs Hotline: (712) 242-2175  
Office Hours: 8 a.m. to 4:30 p.m.,  
Monday through Friday

## GENERAL

- (6) Registration of your business name:

**Sole proprietor**-if you are doing business under a name different than your own, go to the County Recorder's office and complete a "certificate of assumed or fictitious name."

**Partnership**-ask for a "partnership certificate"—registering firm or trade style of a partnership. Have a lawyer prepare a partnership agreement.

**Corporations**-The Secretary of State office registers limited liability companies, limited partnerships, S and C corporations, nonprofit corporations, and state trademarks or service marks.

Papers are to be filed with:

8:00 am—4:30 pm

**Secretary of State**

Business Services Division

321 East 12<sup>th</sup> Street

First Floor, Lucas Building

Des Moines, IA 50319

(515) 281-5204

Online forms are available at [www.sos.state.is.us](http://www.sos.state.is.us)

An attorney is not required, but advised.

- (7) **Zoning**—Check with the city or county Department of Zoning Administration to ascertain that the contemplated use is not prohibited or limited in any way.
- (8) **Building Codes**—Contact city building inspector for approval of remodeling or construction plans. Should also have insurance company approve plans for insurance and OSHA requirements.
- (9) Arrange for accounting and legal services.
- (10) Contact the **Chamber of Commerce** for general help. They will have information available about the community you want to locate in.
- (11) **Local Library**—Small business resource material, books specific to the type of business you are considering as well as general small business books and financial information about similar types of businesses.
- (12) **Thomas Register**—Manufacturers as prospective suppliers. Found at public library.
- (13) **Trade Association**—Check reference section at local library or telephone book (Des Moines for state association).
- (14) **Retailer**—Iowa Retail Federation (800) 795-1729
- (15) **Franchises**—Under an FTC Rule, franchise and business opportunity sellers must give potential buyers a disclosure document ten business days before a contract is signed or money is paid. The document must describe the costs of buying and running the business, the basis for any earnings claims, the seller's history and financial status—plus much more. Contact the Better Business Bureau for information on the franchise.
- (16) **Patents, Trademarks, and Copyrights**—For patent information call the Patent and Trademark Office at (703) 308-4357 or (800) PTO-9199. For copyright information, call (202) 707-3000.

U.S. Department of Commerce Patent and Trademark Office

2900 Crystal Drive

Arlington, Va 22202-3513

(703) 308-4357

Website: [www.uspto.gov](http://www.uspto.gov)

- (17) **Dun and Bradstreet**—4600 Westown Pkwy., Suite #300, West Des Moines, IA 50266  
Ask for “*Key Business Ratios*”, “*Credit Reporting*”, and “*Collection Service*”.

- (18) **Weights and Measures**—Department of Agriculture, Wallace Bldg., Des Moines, IA 50319 (515) 281-5716
- (19) **Manufacturers**—Contact Water, Air, and Waste Management, 900 East Grand Ave; Des Moines, IA 50319
- (20) **Iowa State Ombudsman or Citizen’s Aid**—For questions that you cannot find answers to. 215 East 7<sup>th</sup>; Des Moines, IA 50319 (515) 281-3592
- (21) **Licensing**—Many businesses require licensing by the state and/or your city or county. To determine state licensing requirements for your business, contact:

Business License Information Center (BLIC)  
[www.iowasmart.com/blic](http://www.iowasmart.com/blic)  
 (800) 532-1216

Check with your City Clerk or County Auditor to see if any of the following are required: Auction licenses, Video game license, Café/restaurant license, Vending machines, Billiard table, pool hall, Home-based business

- (22) **IMPORT Information** M-F 8:30 am—5:00 pm  
 US Port of Entry  
 Room 220  
 Municipal Airport Terminal  
 Des Moines, IA 50309  
 (515) 284-4103
- (23) **EXPORT Information** M-F 8:30 am—5:00 pm  
 US Dept. of Commerce  
 210 Walnut Street, Room #817  
 Des Moines, IA 50309  
 (515) 284-4222

**SMALL BUSINESS RESOURCES**

- (24) **Iowa Procurement Outreach Center**  
 Center for Industrial Research and Service (CIRUS)  
 2272 Howe Hall Suite 2620  
 Ames, Iowa 50011-2272  
 (515) 294-4473  
 (800) 458-4465

-Help in getting federal government and state government contracts.

- (25) **US Small Business Administration** M-F 8:00 am—4:30 pm  
The Lattner Building  
215 4<sup>th</sup> Ave SE, Suite 200  
Cedar Rapids, IA 52401-1806  
(319) 362-6405  
  
[www.sba.gov](http://www.sba.gov)  
-Download loan applications; explore business plans, and information for starting a small business.
- (26) **Iowa Department of Transportation**  
Office of Vehicle Services  
Park Fair Mall  
100 Euclid Ave.  
PO Box 9278  
Des Moines, IA 50306-9278  
(515) 244-8725  
(800) 532-1121
- (28) **Iowa Department of Economic Development (IDED)**  
Entrepreneurial Services Team  
200 East Grand Avenue  
Des Moines, Iowa 50309  
(515) 242-4750  
(800) 532-1216  
  
Website: [www.iowasmart.com](http://www.iowasmart.com)  
-Provide financial and technical assistance to Iowa high-growth, value-adding entrepreneurs. Can download financial aid applications such as TSB loan Value-Added Ag loan
- (27) **Small Business Development Centers (SBDC)**  
State Office, Iowa State University  
340 Gerdin Business Building  
Ames, Iowa 50011-1350  
(515) 294-0218  
Website: [www.iabusnet.org](http://www.iabusnet.org)  
-Assist entrepreneurs with all stages of business planning and development.  
  
Local SBDC office:  
Iowa Western Community College  
Center for Business and Industry, Bld. 300  
Council Bluffs, Iowa  
712-325-3350  
800-432-5852 Ext 3350

# Employment Requirements for Most Employers

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The following information was taken from the Department of Labor's Small Business Handbook. For more details, visit the Department of Labor's Web site at <http://www.dol.gov>.

## **I. Wages and Hours**

The Fair Labor Standards Act (FLSA) prescribes minimum wage and overtime pay (and record keeping) standards affecting most private and public employment. Employers must pay covered employees a minimum wage of not less than \$5.15 an hour effective July 1, 2003. Youths under 20 years of age may be paid a minimum wage of not less than \$4.25 an hour during the first 90 consecutive calendar days of initial employment with their employer. Employers may not displace any employee to hire someone at the youth minimum wage. (Employers may pay employees on a piece-rate basis and under some circumstances consider the tips of employees as part of their wages.) While not placing a limit on the total hours which may be worked, the Act requires that covered employees, unless otherwise exempt, be paid not less than one and one-half times their regular rates of pay for all hours worked in excess of 40 in a work week. Tipped employees are paid a minimum wage of \$2.13 per hour.

## **II. Who May Work, and When**

Child Labor provisions of the FLSA (non-agriculture) include restrictions on the hours of work and occupations for youths under age 16, and set forth seventeen hazardous occupation orders for jobs declared by the Secretary of Labor to be too dangerous for minors under age 18 to perform. Immigrant Labor is regulated by the Immigration and Nationality Act (INA). Under the INA, employers may legally hire workers only if they are citizens of the U.S. or aliens authorized to work in the United States. The INA requires that employers verify the employment eligibility of all individuals hired after November 6, 1986. The Immigration Nursing Relief Act of 1989 (INRA) was enacted to provide relief for the shortage of registered nurses by legalizing current non-immigrant registered nurses and ensuring employer efforts to attract and develop more U. S. employees to the nursing profession. Contact ESA's Wage and Hour Division for more details.

## **III. Workplace Safety and Health**

The Occupational Safety and Health Act (OSHA), which is administered by the Department of Labor's (DOL) Occupational Safety and Health Administration (OSHA) regulates safety and health conditions in most private industries (except those regulated under other federal statutes, e.g., transportation). Many private employers are regulated through states operating under OSHA approved plans.

It is the responsibility of employers to become familiar with standards applicable to their establishments, to comply with the standards, and to eliminate hazardous conditions to the extent possible. Compliance may include assuring that employees have and use personal protective equipment when required for their safety or health. Employees must comply with all rules and regulations that are applicable to their own actions and practices.

## **IV. Americans with Disabilities Act (ADA)**

This Act applies to entities employing 15 or more people. Employers may not discriminate against any qualified individual with a disability in any aspect of employment. Employers need to make "reasonable accommodations" for individuals with disabilities.

What is "reasonable accommodation"? If a person with a disability is qualified to perform the duties of the job with some modifications, there may be a need for "reasonable accommodation", unless it poses an "undue hardship" on the employer.

Examples of reasonable accommodations are: accessible facilities, job restructuring (allowing

time off for medical visits), part-time or modified work schedule, acquisition or modification of equipment/devices, modifications of examinations, training materials, and policies. This list is not exhaustive. During the interview process, some practices are prohibited by the ADA.

Questions like: "Do you have any physical or mental impairment that would preclude you from performing your duties?" are prohibited. Instead, an employer should explain in extreme detail, all the functions of the job and then ask: "Can you perform these duties?"

Also, the Act puts limitations on pre-employment medical exams; a medical exam can be required after an offer for employment has been extended and only if all new employees are subject to the same process.

#### **V. Pensions and Welfare Benefits**

The Employee Retirement Income Security Act (ERISA) regulates certain activities of employers who have pension or welfare benefit plans. The statute also provides an insurance mechanism to protect retirement benefits through a requirement that employers pay annual pension benefit insurance premiums to the Pension Benefits Guarantee Corporation (PBGC).

Pension Plans must meet a wide range of fiduciary, reporting, and disclosure requirements, with regulations defining such concepts as the value of plan assets, what is adequate consideration for the sale of assets, the effects of participants having control over the assets in their plans, etc.

Welfare Benefit Plans also must meet a wide range of fiduciary, reporting, and disclosure requirements. In addition, the Pension and Welfare Benefits Administration (PWBA) manages the disclosure and notification requirements for the continuation of health care provisions that were enacted as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA). These provisions cover group health plans of employers with 20 or more employees on a typical business day in the previous calendar year. COBRA gives separated participants and beneficiaries an election to maintain, at their own expense, coverage under the employer's health plan for a limited period of time.

Pension Insurance information can be obtained from the Pension Benefits Guarantee Corporation by writing PBGC, Coverage and Inquiries Branch (25440), 2020 K Street, NW, Washington, DC 20006-1860, or by calling (202) 778-8800.

#### **VI. Miscellaneous Requirements for Most Employers**

The Labor-Management Reporting and Disclosure Act (LMRDA) (also known as the Landrum-Griffin Act) deals with the relationship between a union and its members. It provides for safeguarding of union funds, reporting and disclosure of financial transactions, and administrative practices of union officials, labor consultants, etc.

Provisions protecting employees from discharge or other discriminating actions are built into most labor and public safety statutes, e.g., the FLSA, the OSHA, ERISA, many environmental protection statutes, etc. These provisions protect employees who exercise their rights under these Acts to complain about employers, ask for information, etc. Remedies can include back wages and reinstatement.

The Family and Medical Leave Act requires employers of 50 or more employees to provide up to 12 weeks of unpaid, job-protected leave to eligible employees for the birth/adoption of a child or for the serious illness of the employee or a family member.

Veteran's Reemployment Rights ensure that those who served in the armed forces have a right to reemployment with the employer they were with when they went in service, including protection for those called up for the Reserves or National Guard.

Plant closings and layoffs may cause employers to become subject to the Worker Adjustment and Retraining Notification Act (WARN) which provides for early warning to employees of proposed layoffs or plant closings. Questions on WARN may be addressed to DOL's Employment and Training Administration (ETA).

The Employee Polygraph Protection Act (EPPA) prohibits most uses of lie detectors by employers on their employees. This Act is administered by the Wage and Hour Division of ESA. Garnishment of Wages by employers is subject to regulation under the Consumer Credit Protection Act. This Act is administered by the Wage and Hour Division of ESA

# Conducting Business Online

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The use of the Internet has tremendously increased over the last few years. As a result, many businesses have created a Web site to increase opportunities to reach potential customers. Since the development and maintenance of a Web site is affordable to small businesses, such businesses have also become involved with online business.

If you plan to develop a Web site for your new or existing business, you should take the following steps:

- Develop a Web site. You should consider the level of complexity and security that is appropriate for your business. You can do it yourself or contact a professional service company. Most of the Internet Service Providers (ISP) are able to design a Web site for their customers. Designers charge between \$35 and \$100 per hour depending on the complexity of the job for the Web page design. The total price is expected to be about \$1,000 - \$3,000.
- Contact an Internet Service Provider who will host the commercial Web site. Most of the ISP's charge between \$35 and \$100 per month for hosting your commercial Web site depending on the complexity of the site.
- Register a domain name (i.e. name of the site) also known as the URL address. You can do it yourself or ask your ISP to do it for you. For registering a domain name, most providers charge \$70 to \$150 for the first 2 years and a comparable fee thereafter. To register a domain name by yourself on the Internet, it costs \$70 for the first 2 years and \$35 a year thereafter. It is the cheapest way to register the domain name. It is self-explanatory and easy to follow. You can register at <http://www.networksolutions.com/>. Try to develop a name for the site that will attract the attention of browsing customers and that is descriptive of your site and business.
- Submit your site to the search engines. You can do it yourself or ask your ISP to do it. Some of the service providers will submit your site for a one-time fee of about \$200 - \$300 per Web page. Free submission of your Web site address (URL) to seven main search engines, such as Excite, HotBot, Lycos, AltaVista, InfoSeek, NetFind, and WebCrawler can be done at <http://siteowner.linkexchange.com/>. This will attach the Web site to the main search engines, so when a person looks for keywords that also appear on your site, search engines will be able to list your site. Utilize descriptive and easy-to-use keywords to submit to search engines. This will help search engines to open the site to the right customers.
- If you plan to use the Internet to generate sales, you should be concerned with security issues. There are several options available on how to set up the sales processing on a Web site. They vary by level of security provided and, hence, by price to set them up. Credit Card sales processing ability can be incorporated into a commercial Web site. The options are as follows:
  - Your site can present an order form for customers to complete and submit, which does not require any credit card information (i.e. the form is sent to the seller's e-mail address). It requires a minimal level of security or no security at all and a low additional fee to develop. The seller, then, makes a follow-up call to confirm an order and obtain payment information.
  - Your site can present an order form requiring the input of basic credit card information. The customer prints the order form from the site and sends it to the seller via a fax machine. This requires a minimal level of security or no security at all and does not require any additional fee to develop.
  - Your site can present an order form requiring the input of basic credit card information. The customer can complete and submit the order via the Internet. This method requires a substantial level of security to protect credit card

information, an additional fee to develop, and a yearly fee to support the security system (about \$500). After the seller receives the order (to the specially set-up database or his e-mail account), he/she physically calls in to check the validity of the credit card to process the sale.

- Your site can present an order form requiring the input of basic credit card information. The customer can complete and submit the order via the Internet. The order is automatically connected to the credit card processor (such as First Data), where the credit card information is checked for validity. Then, the completed and checked order comes to the seller's database, where it is recorded. This option requires a substantial level of security, a high fee to develop, and a yearly fee to support the security system (about \$500).

The main goal of a Web site is to promote a company's products or services. A successful site can provide the following benefits:

- It increases a firm's exposure to potential customers (i.e. increase of name recognition);
- It builds a good image of a company that is up-to-date with technology (i.e. creation and maintenance of a favorable reputation)
- It creates and maintains long-term relationships with customers (i.e. creation and maintenance of customer loyalty);
- It increases opportunities for potential sales (i.e. increase of revenues).

It is important to note, however, that you should not publish a Web site solely to generate sales because the Internet is not yet a reliable vehicle for this purpose. Instead, you should use a Web site to convey valuable quality information that interests a targeted audience (i.e. potential customers). If the targeted audience is interested in your products or services, sales are likely to follow. It is essential that you build your Web site the most effective way the first time.

Otherwise, you will spend a lot of money updating your site. To increase the success of your Web site, you should consider the following guidelines:

- Set specific goals for your Web site (i.e. explain why you want to build a Web site and what you intend to accomplish with it).
- Think about keywords that would best describe your products or services. Use these keywords in the title, the meta-tags, and the body text of your Web site. These keywords will allow your Web site to be highly ranked in search engine databases if you plan on using search engines as an advertising tool.
- Include valuable and quality information that is relevant to your audience. Most Internet users browse the Web to search for information. Thus, it is crucial that the contents of the Web site provide interesting information for the audience your firm is targeting. Otherwise, people will not visit your site and will certainly not come back if they have been disappointed by their first visit.
- Continually change the content of your Web site to bring visitors back to your site. Think of your Web site as a source of information where visitors expect updated information to satisfy their curiosity in a number of topics. If the content of your site is never changed, people are not likely to come back since they have already read the information they needed.
- Make your Web site easy and fast to download. Internet users' patience is relatively short. They will go and visit another site if yours takes too long to download. For instance, do not include too many items such as animated gifs and Java applets that would slow down the downloading process.
- Make your Web site an interactive site. Have the visitors participate and be involved in your Web site to retain their attention and encourage them to come back. For instance, create contest with a winning prize. The contest should be relevant to the content of the Web site to create and maintain a professional image of the company. You need to build credibility. Another example of interactivity could be a chat room, forum, or discussion

group that would allow people interested by similar topics to share ideas and opinions online.

- Include a newsletter in your site. Offer visitors the option to sign up for a free newsletter that will be sent directly to them by e-mail. You will need to create a form for visitors to sign-up for membership. This information will be used to create a mailing list. Send this newsletter periodically to members of your mailing list. The content of the newsletter should provide newsworthy information to members, and it should be related to topics concerning your core activity(ies).
- Use your Web site for marketing research. Provide online surveys to your customers to find out priceless information about them. You will be able to use this information to better reach your customers (not only for the Web site but also for all marketing strategies).

Having a Web site will not benefit your company if nobody knows about it. You should be aware that you will need to invest time and money in advertising your Web site to increase visibility and traffic. Use the following guidelines to promote your Web site and enhance traffic. Note that you should apply the guidelines that are the most relevant to your business. What works for one site does not necessarily mean that it will work for another site.

- Include your Web site URL and e-mail address in all your business literature such as business cards, invoices, brochures, stationary, and promotional items.
- Advertise your presence on the Internet in traditional media such as print ads, and press releases. Mention your Web site address and offer some incentives to bring visitors to your home page (i.e. give them a good reason to check out your site). Make sure the content of the ad or press release is newsworthy and attracts the readers' attention.
- Provide online contact between your customers and your business through email. Make sure to provide fast responses to customers' emails. As mentioned earlier, Internet users do not have a lot of patience, and they do not need much discouragement to never visit your site again. Prompt customer service is a key to long term relationships with customers.
- Use Newsgroups to advertise your Web site. First, you can simply post an ad on newsgroup sites that relate to your topics of interest if you know they accept unsolicited advertising. Do not advertise in newsgroups that do not accept unsolicited ads because the consequences can be unpleasant for your Web site. Secondly, you can try to make contacts to individuals through newsgroups. This technique consists of responding to a discussion thread about a topic that concerns your business. When providing the answer, include a short description of your business, your URL, and your e-mail address. This method is a good way to prospect for people interested in your product. The last technique is to search for individuals participating in a newsgroup that are interested in the core activity(ies) of your business. If you find an individual who asked "Can somebody tell me what companies sell product X?", you could reply to this question by providing a description of your product and contact information. It is important to note that these techniques are mainly used by companies that sell products or services nationally or internationally.
- Link your Web site to Web sites related your products/services and industry-. For instance, your company Web site should be linked to Trade Associations in your industry. It is likely that you will have to become a member of these associations to be able to link your site to theirs. Check with these organizations to find out the conditions to be linked to their sites. Other Web sites that your company can be linked to are governmental agencies and professional organizations related to your industry. Links to a Web site should be free in most cases as long as you agree to link back these other sites as a win-win situation. It is recommended that you contact these companies to discuss their policies for linking your Web site to theirs.
- In conclusion, it is important to stay in touch with current trends in the Internet world to assure the success of your Web site. You should continuously check out other Web sites

to see the new trends in Web page layouts and contents. You want to make sure that your Web site conveys a positive image of your company in regards to information technology.

# FUNDING OPTIONS FOR YOUR VENTURE

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## ***I. Personal Savings***

The first place an entrepreneur should look for start-up money is in his/her own pocket. If the Potential business owner is applying for a loan, he/she will be required to come up with at least 20%-30% of the amount needed to start the business. Funds may also be obtained through friends and relatives but it is recommended that the arrangement be considered strictly business with details settled up front and a contract written before funds are acquired.

## ***II. Small Business Administration (SBA) Loan Guarantees***

The US Small Business Administration 7(a) Loan Guaranty Program can fund the varied long-term needs of small businesses when necessary financing is unavailable on reasonable terms through normal lending channels. Private lenders, usually banks, make loans that are guaranteed up to 90 percent by the SBA. The borrower makes loan payments to the lender.

The two most popular loan guarantees are the *7(a) loan* and the *Low Doc loan*. The Low Doc is limited to loans of \$150,000 or less. It is a one-page application. The SBA relies mainly upon the strength of the applicant's character and credit history. The lender may require additional information. Web site: <http://www.sba.gov/>

## ***III. Venture Capital***

Venture capitalists loan money to businesses or take an equity position in a business in exchange for the business using the investor's money. The venture capitalist's goal is to obtain a return on his or her investment. Venture capitalists usually like to see a 20%-30% return on the investment. Web site Sources: Garage.com: <http://garage.com> The Entrepreneur's Web Site For Financing Resources: <http://www.capital-connection.com/venturecapital.html>

## ***IV. Private or Angel Investors***

These are wealthy individuals that invest in businesses. They are often entrepreneurs themselves and, therefore; they have substantial business experience. Angels usually invest their money locally and look for businesses they know something about so that they can use their knowledge and experience to assist the business. Angels' return on investment requirements tend to be lower than those of professional venture capitalists and are willing to wait longer to cash out of their investment.

## ***V. Factoring***

This is a method where accounts receivable are sold at a discount for cash. Usually factoring firms are third party collectors. These firms pay the business in advance for the receivables and then they collect directly from the customer. Using factoring to increase cash flow can be an expensive way to get money. Recently, some Iowa banks have started programs where they purchase receivables. As with any business arrangement, it is recommended that you fully understand the program and how it works before getting involved.

## ***VI. Leasing***

Rather than purchasing new equipment, leasing may be a less expensive option. Leasing allows the business owner to access items that are essential to the growth of the business without having the initial cash outlay.

## ***VII. Local Funding Sources***

Local economic development associations, Certified Development Companies, Business Incubators, and Enterprise Zones may have special programs or financing available for your area

# Preparing For a Business Loan Request

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If you are needing money to start a new business, purchase an existing business or expand your current operation, preparing vital information before you get to the bank will enhance your chances of obtaining financing. Depending on the size of the loan request and additional risk for the bank, you may have to provide extensive information and supporting documentation, such as, a complete business plan. However, no matter how large or small the investment will be, the lender is going to need the following information to evaluate the loan request.

- HOW MUCH AND WHAT FOR? – A detailed customer request should be prepared showing how much your loan request is and what you will be doing with the funds. Be prepared to be as specific as you can as to why you need the amount requested, including such things as, equipment and furniture, leasehold improvements, initial inventory, and working capital. Include in this narrative the owner's cash injection plus any other equity that is being contributed.
- DESCRIPTION OF THE BUSINESS – Your banker needs to know that you fully understand your industry and the market. You should indicate details for your business, including what it is, how you are going to run it, and the legal form of the business. Emphasize anything that gives your business a competitive edge over similar businesses. Such information may include, but not be limited to, demographics, traffic counts, industry-specific information and any other market information.
- A SOUND BELIEF IN MANAGEMENT'S ABILITY – One of the strongest factors for success in business is the management capability of the owners. Provide resumes to your lender detailing any experience you have in the business or management experience you've had in other businesses. If you do not have prior management experience provide information on any training or additional support you will be obtaining which could include hiring an accountant, consultant or employees with the expertise.
- HOW DO YOU PLAN TO GENERATE SUFFICIENT CASH FLOW TO PAY BACK THE LOAN? - Include any historical information, such as, three year's tax returns and financial statements if you are an existing business or you are purchasing an existing business. Prepare an income statement and cash flow statement showing where your revenue will be coming from, what your expenses are and cash reserves you'll have after principal and interest are paid.
- COLLATERAL AND PERSONAL FINANCIAL INFORMATION – Inadequate collateral and no personal guarantor capacity can be the major weakness of any application. The lender will want to see a personal financial statement of the owner/guarantors since a personal guarantee on the loan will be requested by the lender. Collateral coverage must be shown, including its value. Be prepared to offer personal real estate if other collateral is not sufficient to support the loan.

*Remember that funding sources will be "turned off" by business owners who need money immediately and are not prepared to answer relevant business questions. Although this all may seem time consuming, the more prepared you are, the more credible you will appear to the financing source, which could increase your chances for loan approval.*

# What Banks and Investors Look For

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## *I. Loan for a New Business*

To consider a loan request for a new business, bankers and investors usually require the following information:

- Formal business plan
- Statement of what the loan will be used for
- Collateral and owner's equity to secure the loan
- Your investment in the business
- Projections of income, expense, and cash flow
- Three years of personal income tax returns if ownership is 20% or more
- Signed and dated personal financial statement if ownership is 20% or more
- Guarantor's financial statement (if applicable)
- Good credit history
- No bankruptcy in the last 5-7 years
- Lease details
- Personal resumes
- Expertise/experience in the area of the business
- Management experience

If the proposed business consists of buying an existing business, the accounting and tax records should be obtained from the previous owner. Care should be taken to verify the accuracy of these figures. An independent accountant should audit the books to verify that they paint a true picture of the firm's performance.

Bankers and investors use this information to evaluate the business' potential for success. Good communication between lenders, investors, and the firm is required to keep this information current. This up-to-date information is needed, so shortcomings may be recognized early and appropriate corrective action taken.

Another key factor lenders consider when evaluating a loan application is the amount of equity that the owner(s) are putting into the business. **Although there is no hard and fast rule on equity, it is common for bankers to require that at least 25-30% of the total capitalization be owner's equity.** This is especially true for new businesses. Less equity capital may be required for growing businesses that have an established record of profitable performance. For example, if you need \$80,000 for your business, the bank may require a minimum of \$20,000 in owner's equity to accept the \$60,000 loan.

One of the other critical factors lenders evaluate is an indication that the company is selling products or services in a sufficiently large and growing market (i.e. Demand is strong enough to support the existence of a new firm in the market). It is also helpful if the firm is offering a truly unique product or service to its target market. Such a firm will probably not face as much price competition as a firm that carries products similar to competitors.

Investors and lenders also weigh the managerial factors very heavily. Experience in business is extremely important, especially in the relevant industry. If a person has no experience in the industry he/she is proposing to enter, lenders frequently advise the person to talk with people engaged in a similar business in a different geographical location. Frequently, prospective business owners are advised to work for someone else in the industry for several years to obtain the necessary experience. A business's short-term and long-term objectives are looked at closely to determine if the owner is aware of the large amount of time required to manage the proposed venture and if he/she is realistic in his/her expectations of what can be taken from the firm.

New business start-ups are risky for both the entrepreneur and the banker. Banks will look for alternative ways to get repaid if the business fails. If you answer “No” to any of these statements, then you may need to go through another source of funding.

- We have access to cash to invest in the business (generally 25-50% of total needs) Yes\_\_\_\_\_ No\_\_\_\_\_
- We can provide the bank with collateral other than business assets for the loan, such as real estate, marketable securities, cash, letters of credit, etc. Yes\_\_\_\_\_ No\_\_\_\_\_
- We can demonstrate an alternative source of repaying the loan, should the business fail to cover our payment obligations (i.e. second income or guarantor). Yes\_\_\_\_\_ No\_\_\_\_\_

## ***II. Loan for an Existing Business***

For an existing business, bankers and investors need the following:

- Formal business plan
- Statement of what the loan will be used for
- Collateral and equity to secure the loan
- Your investment in the business
- Guarantor’s financial statement (if applicable)
- History statement on the business
- Current (within 60 days) Balance Sheet
- Current (within 60 days) Income Statement
- Year-end statements if different from above
- Three year’s tax returns on the business
- Schedule of term debts
- Aging of accounts payable and receivable
- Lease details
- Good credit history
- No bankruptcy in the last 5-7 years
- Personal resumes
- Expertise/experience in the area of the business
- Management experience

The first step is to gather all this information. The next step for an existing business is to convince the bank that you are a good credit risk. If you can answer “Yes” to all of the following questions then you are in good shape. However, a “No” answer does not automatically disqualify you from receiving the loan. These are just issues that will be raised by the banker that you need to think about.

- We have been in business at least three years. Yes\_\_\_\_\_ No\_\_\_\_\_
- We currently show a profit year-to-date. Yes\_\_\_\_\_ No\_\_\_\_\_
- We were profitable at the end of our last fiscal year. Yes\_\_\_\_\_ No\_\_\_\_\_
- Our company has a positive net worth. Yes\_\_\_\_\_ No\_\_\_\_\_
- Our company is current with all federal and state taxes. Yes\_\_\_\_\_ No\_\_\_\_\_

# Financial Assistance Programs

## Provided by the Southwest Iowa SBDC Center

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### **SBA Guarantee Loan Programs:**

**Basic 7(a) Loan Guaranty:** The US Small Business Administration guarantees bank loans to small businesses unable to get necessary financing through normal lending channels. Loans are available for many business purposes such as real estate expansion, equipment purchases, working capital or inventory. Typically, SBA requires a minimum of a third of the total project costs to be personal investment from the owner. The loans are delivered through the commercial lending institutions at interest rate not to exceed 2.75% over the prime lending rate. The prospective borrower needs to have approached the bank first for financing before he/she can apply for a SBA loan. The SBA 7a loan program Serves as the SBA's primary business loan program to help qualified small businesses obtain financing when they might not be eligible for business loans through normal lending channels. It is also the agency's most flexible business loan program, since financing under this program can be guaranteed for a variety of general business purposes.

**SBA Low-Doc Program:** The Low Documentation or Low-Doc Program is SBA's quick and easy program for providing a guaranty on small business loans of \$150,000 or less. SBA will guaranty up to 80 percent of the loan if it is for \$100,000 or less (in combination with any other SBA loans). Under Low-Doc the SBA uses a one page application and relies on the strength of the individual applicants character and credit history. The process for applying is the same as the above SBA program.

**SBA 505 Loan Program:** Provides long-term, fixed-rate financing to typically existing small businesses to acquire real estate or machinery or equipment for expansion or modernization. Typically a 504 project includes a loan secured from a private-sector lender with a senior lien, a loan secured from a CDC (funded by a 100 percent SBA-guaranteed debenture) with a junior lien covering up to 40 percent of the total cost, and a contribution of at least 10 percent equity from the borrower. The maximum SBA debenture generally is \$1 million (and up to \$1.3 million in some cases).

**SBA Pre-Qual Program:** Allows business applicants to have their loan applications for \$250,000 or less analyzed and potentially sanctioned by the SBA before they are taken to lenders for consideration. The program focuses on the applicant's character, credit, experience and reliability rather than assets. An SBA-designated intermediary (SBDC Centers) works with the business owner to review and strengthen the loan application. The review is based on key financial ratios, credit and business history, and the loan-request terms. The program is administered by the SBA's Office of Field Operations and SBA district offices.

### **Iowa Department of Economic Development Financial Assistance**

#### **Community Economic Betterment Account:**

This program is structured to provide financial assistance to businesses and industries that require such assistance in order to create new job opportunities. Retail businesses are ineligible for this program. CEBA funds are intended to be only a small piece of the

financial package with the majority of the investment coming from private and local public resources.

### **Economic Development Set-Aside (EDSA)**

The EDSA program provides financial assistance to companies that create new employment opportunities and/or retain existing jobs, and make new capital investment in Iowa. The amount of funding is based, in part, on the number of jobs to be created/retained. Funds are provided in the form of loans and forgivable loans. Projects eligible for EDSA funding include, but are not limited to, the following: Building construction or reconstruction, Land or building acquisition, Equipment purchases, Operating and maintenance expenses, site development - clearance, demolition and building removal. For more information on EDSA funds contact the IDEED at: Email: [businessfinance@ided.state.ia.us](mailto:businessfinance@ided.state.ia.us) Phone: +1.515.242.4819

### **Entrepreneurial Ventures Assistance (EVA)**

This program provides financial and technical assistance to early-stage technology companies. An eligible business must be located in Iowa and in an industry sector offering the greatest start-up and growth potential for the state, including but not limited to: biotechnology, recyclable materials, software development and computer related products, advanced materials, advanced manufacturing, medical and surgical instruments. To qualify, applicants must have completed or must be participating in entrepreneurial training from a John Pappajohn Entrepreneurial Center, or have comparable training and/or experience. Businesses engaged in retail sales, the provision of health care or professional services, and distributors of products or services are not eligible for EVA funds. For more information on EVA funds contact the IDEED at: Email: [entrepreneurialservices@ided.state.ia.us](mailto:entrepreneurialservices@ided.state.ia.us) or Phone: +1.515.242.4715

### **Value-Added Agricultural Products and Processes Financial Assistance Program (VAAPFAP)**

The Value-Added Agricultural Products and Processes Financial Assistance Program seeks to increase the innovative utilization of Iowa's agricultural commodities. It accomplishes this by investing in the development of new agri-products and new processing technologies. VAAPFAP may assist projects in two primary categories and a third secondary category: 1. Innovative Products and Processes encourages the processing of agricultural commodities into higher-value products not commonly produced in Iowa, or utilizing a process not commonly used in Iowa to produce new and innovative products from agricultural commodities. 2. Renewable Fuels and Co-Products encourages the production of renewable fuels, such as soy diesel and ethanol, and co-products for livestock feed. 3. A third category, Project Creation Assistance, is also available for projects that may be ineligible under the regular program due to their "precommercial" status. Project Creation Assistance is limited to projects within certain designated Strategic Initiatives. For more information on EDSA funds contact the IDEED at: Email: [businessfinance@ided.state.ia.us](mailto:businessfinance@ided.state.ia.us) Phone: +1.515.242.4819

### **Self-Employment Loan Program (SELP)**

#### **Self-Employment Loan Program (SELP)**

Offers low-interest loans of up to \$10,000 to low-income owners of new or expanding small businesses. This program is designed to assist in the creation and expansion of businesses owned, operated and managed by women, minorities, or persons with a disability. SELP loans of up to \$10,000 are available. The interest rate is 5 percent, and

the loan is to be repaid in monthly installments over a five-year period. The first installment can be deferred for three months. SELP applicants must obtain a local sponsor for the application process (SBDC). For more information on the SELP program contact the IDED a: Email: [businessfinance@ided.state.ia.us](mailto:businessfinance@ided.state.ia.us) Phone: +1.515.242.4819

### **Targeted Small Business Financial Assistance Program (TSBFAP)**

Designed to create and expand minority- or women-owned businesses through direct loans of up to \$25,000 and loan guarantees of up to \$40,000.

Awards may be obtained in one of the following forms of assistance:

- Low-interest loans. Loans of up to \$25,000 may be provided at interest rates of 0-5 percent, to be repaid in monthly installments over a five- to seven-year period. The first installment can be deferred for three months for a start-up business and one month for an existing business.
- Loan guarantees are available up to \$40,000. Loan guarantees can cover up to 75 percent of a loan obtained from a bank or other conventional lender. The interest rate is at the discretion of the lender.
- In limited cases, equity grants - to be used to leverage other financing (SBA or conventional) - are available in amounts of up to \$25,000.

In order to apply for financing, the business has to be certified as a Targeted Small Business first through the Iowa Department of Inspections and Appeals. ). For more information on the TSBFAP program contact the IDED a: Email: [businessfinance@ided.state.ia.us](mailto:businessfinance@ided.state.ia.us) Phone: +1.515.242.4819

### **State of Iowa Financial Assistance**

#### **Link Investments for Tomorrow (LIFT)**

Assists with rural small-business transfer, horticulture and alternative agricultural crops. Contact the State Treasurer's Office: Capitol Building, First Floor, Des Moines, IA 50319 515.281.3287 <http://www.treasurer.state.ia.us/investments/lift/>

#### **Entrepreneurs with Disabilities (EWD)**

The EWD program helps qualified individuals with disabilities establish, acquire, maintain or expand a small business by providing technical and financial assistance. To be eligible for the program, applicants must be active clients of the Iowa Department of Education Division of Vocational Rehabilitation Services or the Iowa Department for the Blind. Technical Assistance grants of up to \$10,000 may be used to pay for any specific business-related consulting service such as developing a feasibility study or business plan, or accounting and legal services.

Financial Assistance grants of up to \$10,000 may be used to purchase equipment, supplies, rent or other start-up, expansion or acquisition costs identified in an approved business plan. Total financial assistance provided to an individual may not exceed 50 percent (maximum of \$10,000) of the financial package. EWD financial assistance must be fully matched by funding from other sources. For more information on EWD assistance contact the IDED at: Email: [entrepreneurialservices@ided.state.ia.us](mailto:entrepreneurialservices@ided.state.ia.us) or Phone: +1.515.242.4715

## **Venture Capital Sources**

### **Venture Network of Iowa (VNI)**

VNI is a statewide forum via the Iowa Communications Network in which Iowa entrepreneurs, investors and business advisors interact, network, and find financial and intellectual capital. For more information contact **businessfinance@ided.state.ia.us**  
Phone: +1.515.242.4819

### **Tec TERRA Food Capital Fund**

Equity available for Iowa food processors and biotechnology companies with growth potential, especially those offering ownership opportunities and other benefits to Iowa agricultural producers.

### **The Cybus Capital Group**

520 Walnut Street, Suite 500  
Des Moines, IA 50309  
515.246.8558  
Fax: 515.246.0129  
<http://www.cybus.com/>

### **Access Capital Electronic Network (ACE-NET)**

ACE-NET is an Internet-based listing service providing information to angel investors on small, dynamic, growing businesses seeking equity financing.  
<http://www.ace-net.sr.unh.edu>

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

SBICs fill the gap between the availability of venture capital and the needs of small businesses in start-up and growth situations. SBICs are privately owned investment firms that provide capital plus funds borrowed at favorable rates with an SBA guarantee.  
<http://www.sba.gov/INV/>

## **Iowa Tax Advantages**

For more information on the following programs contact IDED at  
Email: [iowasmart@ided.state.ia.us](mailto:iowasmart@ided.state.ia.us)

Phone: +1.515.242.4707 or 800.532.1215

Many of the programs are locally based and the appropriate city or county may need to be contacted.

### **Iowa Corporate Income Tax**

Iowa's single-factor, non-unitary tax is based only on the percentage of total sales income within the state - an Iowa manufacturer selling all its products outside Iowa would pay no Iowa corporate income tax. Iowa allows 50 percent deductibility of federal taxes from Iowa corporate income tax, and Iowa corporate income tax may be reduced or eliminated by the New Jobs Tax Credit.

### **No Sales or Use Tax on Manufacturing Machinery and Equipment**

The purchase of industrial machinery and equipment and computers assessed as real property is exempt from Iowa sales or use tax. No sales tax is due on purchases of electricity or natural gas used directly in the manufacturing process.

### **No Property Tax on New Industrial Machinery and Equipment**

Manufacturing machinery and equipment, as well as computers used to process data by insurance companies and financial institutions, are exempt from property tax.

### **No Personal Property (Inventory) Tax**

Personal property is not assessed for tax purposes. In Iowa, personal property includes corporate inventories of salable goods, raw materials and goods in process.

### **New Jobs and Income Program**

The Iowa New Jobs and Income Program provides a package of tax credits and exemptions to businesses making a capital investment of at least \$10.38 million and creating 50 or more jobs meeting wage and benefit targets.

### **Local Tax Abatement**

Iowa law allows cities and counties to abate local property taxes for value added to industrial real estate. The maximum amount of actual value added at a new or expanded facility which is eligible to be exempt from taxation is:

Year One: 75 percent

Year Two: 60 percent

Year Three: 45 percent

Year Four: 30 percent

Year Five: 15 percent

### **Enterprise Zones**

Business locating or expanding in an Enterprise Zone may receive the tax benefits.

### **Tax Increment Financing**

City councils or county boards of supervisors may use the property taxes resulting from the increase in taxable valuation caused by the construction of new industrial or commercial facilities to provide economic development incentives to a business or industry. Tax Increment Financing may be used to offset the cost of public improvements and utilities that will serve the new private development, to finance direct grants or loans to a company, or to provide the local match for federal or state economic development assistance programs.

### **Pollution Control or Recycling Property Tax Exemption**

Pollution control and recycling equipment may be eligible for a property tax exemption. Improvements to real property that are primarily used to control pollution of air or water, or primarily used for recycling, may qualify. An application must be filed for exemption.

### **New Jobs Tax Credit**

A business entering into an agreement under the state's training program - and increasing its workforce by at least 10 percent - may qualify for this Iowa corporate income tax credit. This credit is equal to 6 percent of the state unemployment insurance taxable wage base. The credit for 2003 is up to \$1,152 per new employee and can be carried forward up to 10 years.

**Research and Development Tax Credit**

A credit for increasing research activities is 6.5 percent of the company's allotted share of qualifying research expenditures in Iowa. A company must meet the qualifications of the federal research activities credit in order to be eligible for the credit on the Iowa return.

**Assistive Device Tax Credit**

Iowa small businesses can reduce their taxes by buying or renting products or equipment, or by making physical changes to the workplace to help employees with disabilities get or keep a job.

NOTE: For local program specifics for tax abatements, revolving loan funds, etc. contact your local Chamber of Commerce, Economic Development group or the SBDC Center in your region.