

## **Biz Savvy Q&A**

William Ellyson, a small business attorney with more than thirty years of experience dishes on common legal pitfalls, protecting your investments, and finding the personality factor.

By Christina Couch, Work Magazine, Winter 2008 Issue

### **WORKMAGAZINE: What's the top legal problem facing new small businesses today?**

**Ellyson:** Liability. Before opening your doors, you want to make sure you're protected as much as possible against a liability suit, especially if you're an individual entrepreneur running a company. You're a lot more protected if you establish your business as an LLC rather than just running it privately. LLCs are exactly like corporations for small businesses. The benefit to having LLC status is that in case of a suit, clients can only sue the company and take assets in the company's name. They can't take your private property.

### **WORKMAGAZINE: How do you protect company property?**

**Ellyson:** My advice is to contract out company property if you can. To protect the company as much as possible, a lot of business owners place any valuable equipment outside of the company name then turn around and lease it back to the company. That way if the company gets hit with a lawsuit, the equipment can't be touched. Another benefit to being an LLC is the tax advantages. Individuals pay more taxes than businesses, so establishing your business as an entity that's separate from your personal taxes can save you money.

### **WORKMAGAZINE: What do investors want?**

**Ellyson:** Business owners have to understand that investors want three things—they want a return on their investment in a predictable amount of time, they want a percentage of the ownership, and they want the tax benefit of being an investor. In a partnership between an investor and a company, the company can grant first year profit losses to the investor. Let's say the company loses \$100,000 the first year and \$25,000 the next year, the investor can write off those losses. The key is to set out, on paper, how all of those things are going to be accomplished in the beginning. Usually an investor will tell you exactly what they expect from the situation and the business owner has to follow the Golden Rule—the person with the gold makes the rules. Most investors expect a return on their investment within five years, so you have to plan on making a profit in that time.

### **WORKMAGAZINE: What if you can't?**

**Ellyson:** There's always some leeway involved, but most investors expect a return in five years. That's why you need a good lawyer and a written agreement that spells out who gets what and what happens if it all falls through.

### **WORKMAGAZINE: How can new small business owners find the right lawyer?**

**Ellyson:** First, new small business owners should look around for free advice before paying for it. I teach a class at the chamber of commerce or you can call around and arrange a free initial consultation with an attorney. New entrepreneurs should look for attorneys that specialize in their business. The more specialized attorney you find, the better advice you're going to get. Clients should also find an attorney that they feel like they can have a continuous relationship with. The personality factor is important too. Business owners should feel like their attorney's office is a safe place.

### **WORKMAGAZINE: What else should new biz folks know?**

**Ellyson:** Don't entangle alliances if you can help it. What I mean is, instead of hiring employees, think about hiring independent contractors to do your work instead. It's better for the employer because the contractor isn't your liability and vice-versa.