

Going "Legit": Lose the Brown Paper Bag



Executive summary. If you've been running the accounts receivable and accounts payable out of a brown paper bag and want to go "legit", here are the first steps.

The background. Perhaps you have a successful and operating company – you have for a year or twenty years. But each time there was a chance to get bigger and to take on more reputable work you couldn't. Why? Because your employees and vendors have been getting paid in cash, you don't have tax identification number, and you never got around to getting proper contractor licensing. Here's the king of "illegit": Scarface. [QR]



I want to go legit. If you as the principal of your company have made the decision that it's time to operate more "on the radar" to grow your company, there are several steps to take that really aren't that tough.

Ok, what do I do now? Here's what you need to stand up a legitimate construction company:

1. Form a company – likely you will want to create an LLC (limited liability company); you can do it on-line or you can hire an attorney
2. Obtain a tax ID number (federal) – you must have a FEIN (federal tax identification number)
3. Obtain a tax ID number (state) – all states vary, but likely you will need one of these too
4. Open a business bank account – in order to open a business bank account, the banker likely will need an operating agreement and your articles of organization (you obtained these documents in #1 above)
5. Obtain a certificate of good standing – this is provided by your secretary of state and it's just good to have sitting in your file (your banker likely will need this in #4 above)
6. Find a CPA – a CPA (certified public accountant) will properly calculate your taxes and will be able to provide you with a certified balance sheet. Your financial reports (income statement and balance sheet) will be necessary to grow your company – i.e. obtain a loan, extend credit at the bank, qualify for bonding, et cetera.
7. Find an insurance agent – at a minimum you're going to need general liability insurance. Other insurances such as auto, builder's risk, workers

compensation, inland marine, umbrella, and professional liability may be needed also. Find a construction insurer, not the local agent in the mall.

8. Get your taxes up to date – make sure your personal taxes are up to date, the one party you don't want to tangle with is the IRS, or even your state's department of taxation. When you get bigger, it may be a condition of payment to show current tax compliance.
9. Obtain a contractor's license – states differ greatly in this process, but in order to do public work or even larger private work, you'll likely need a license. This can take a week to six months, or more. Working the federal arena may or may not require license.



Bonus items. Beyond the items listed above, here other items to help start your company:

10. Create a logo – plenty of places on-line for this. Best to find a professional so that you can get different versions (.jpg, .png, .ai, etc.) and a set with transparent backgrounds. Also, it's good to have your logo in a rectangular-ish shape and also in a square-ish shape. This will allow placement on documentation, banners, and your website.
11. Create a website – again, plenty of places on-line. Make sure you find some great pictures and even testimonials from clients.
12. Find a lawyer – find a construction lawyer that can help set up your contracts (purchase orders and subcontracts) and then help you with challenges on your projects. You want one specific to your state. (S)he should be a good resource for other matters such as labor – whether (s)he does it in house or knows who you can call.
13. Figure out payroll – doing union payroll through a service is difficult; however, doing salaried employees or non-union hourly can be easier and through a national payroll service provider. This is a headache and compliance can be costly in time and money if you are not current in payments to the Government.
14. Bonding – if you need to obtain bonding, this starts with the CPA – you must have *reviewed* financials (*reviewed* is a technical term – it is a level of effort which is less than *audited* and must be done by a CPA). If your insurance agent also does bonding in house (I recommend this), then the CPA-produced financials will be the first request from the surety agent.

My story. I have done all of this for myself. I do it now for clients. Work safe!