



# CHAPTER THREE

B U S I N E S S   S T A R T U P

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O P E R A T I O N S   M A N U A L

# CHAPTER THREE



## Franchise Startup

This chapter outlines the steps necessary to open your Mici Italian franchise. It discusses setting up your restaurant, restaurant permits, insurance requirements, initial marketing, and guidelines for operating your franchise efficiently.

Because of the changing nature of this section, not all of the information may be present at the time you purchase the franchise. If this is the case, you'll be given supplemental or additional information during training. We encourage you to add any new material to the end of this chapter to keep it organized.

### NEW COMPANY SETUP CHECKLIST

COMPANY INFORMATION	
Company name:	
Address:	
Telephone:	Fax:
Date restaurant started:	Number of owners:
CHECKLIST	CONTACT INFORMATION
<input type="checkbox"/> Choose a type of restaurant entity. <input type="checkbox"/> Restaurant entity type:	
<input type="checkbox"/> Select end of fiscal year. <input type="checkbox"/> Fiscal year-end:	
<input type="checkbox"/> Apply for IRS Employer Identification Number (EIN), if applicable.	To obtain Form SS-4 to apply for an EIN, call (800) 829-3676 (IRS.gov).
<input type="checkbox"/> Register with the state as a restaurant.	
<input type="checkbox"/> Obtain county and city restaurant licenses.	
<input type="checkbox"/> If corporation, file letters of incorporation. <input type="checkbox"/> If partnership, create and sign partnership agreement.	Rosemarie Del Monte 720.401.6458

CHECKLIST	CONTACT INFORMATION
<input type="checkbox"/> Purchase insurance plan(s).	Ingmire-Phillips 970.867.3000
<input type="checkbox"/> Choose an accounting method:	
<input type="checkbox"/> Select and purchase accounting software.	<input type="checkbox"/> SROnline and Quickbooks Online
<input type="checkbox"/> Install and set up accounting software.	
<input type="checkbox"/> Open a restaurant banking account.	
<input type="checkbox"/> Obtain a restaurant credit card.	
<input type="checkbox"/> Consider contracting with a payroll processing firm and/or record-keeping firm.	<input type="checkbox"/> Heartland Plus One
<input type="checkbox"/> Establish a salary agreement for each owner.	

## General Guidelines

Implement good financial practices when setting up your restaurant:

- Gather and record all checks and receipts, starting the first day of restaurant.
- Have no more than two people writing out of the restaurant checkbook.
- Immediately set up an organized filing system for the restaurant's accounting records.
- Never mix personal and restaurant expenses.

### CHOOSING A RESTAURANT ENTITY

The most common forms of restaurant entities are sole proprietorships, general partnerships, limited partnerships, limited liability companies, and corporations. Each has different tax and liability implications. Discuss these forms of restaurant entities with your legal and accounting/financial advisers to determine which is most appropriate for your restaurant.

If the restaurant entity has not been formed before the franchise has been purchased, you should form a restaurant entity immediately after you purchase the franchise. If you purchased a franchise in your name personally and subsequently wish to form a restaurant entity, you must notify the corporate office before transferring the restaurant. An Assignment to Entity document will be generated to document the transfer of the franchise agreement to the restaurant entity name.

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# *Types Of Restaurant Entities To Consider*

## **SOLE PROPRIETORS**

This is the simplest type of organization. There are very little costs involved in setting up a sole proprietorship. You have no liability protection and you are personally responsible for all the debts and liabilities of the restaurant. Sole proprietors report their income tax on the IRS form Schedule C, which is part of a personal income tax return.

## **C CORPORATIONS**

C Corporations are incorporated under the laws of a state and provide liability protection not offered by sole proprietorships. C Corporations are taxed at two different levels, the corporate level, and the individual level. You must be an employee of the corporation (even if you are the only shareholder) and you must receive a salary. The salary must be reasonable based on comparable wages paid to non-owner employees. Financial distributions to shareholders, such as dividends or profit-sharing, which are over and above wages, are taxed at both the corporate level and the individual level (double taxes). There are other disadvantages that are not discussed here; the small restaurant owner has fewer benefits operating as a C Corporation. C Corporations report their income tax on form 1120.

## **SUBCHAPTER S CORPORATIONS**

A Subchapter S Corporation offers the same liability protection attributes of a C Corporation except that there is no taxation at the federal level. All profits are taxed by the owners and all losses can be used by the owner to offset non-related restaurant income. If you are employed by an S Corporation (even if you are the shareholder), you must receive a salary. The salary must be reasonable based on comparable wages paid to non-owner employees. It must also be reasonable based on the profits of your restaurant. In general, it is recommended that the salary be set to equal about 50% of the profit. The part of the profits that are not salary will be subject to income tax, but not to social security/Medicare tax, which is 15.3% of wages. This can result in a huge tax benefit. S Corporations report their income tax on form 1120S.

## **LIMITED LIABILITY COMPANY (LLC)**

This type of entity offers even greater liability protection than corporations, but has a drawback. All operating members of an LLC are subject to social security/Medicare tax on the entire profit allocated to them. To get tax advantages of an S Corporation you can elect to have the LLC taxed as an S Corporation. Partners of an LLC (if S status is not chosen) do not receive wages, but take their income as a draw.

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## ***Select the End of the Fiscal Year***

Most companies select the end of the calendar year to be the end of the fiscal year.

## ***Apply for IRS Employer Identification***

To obtain Form SS-4 or to apply for an EIN, call (800) 829-3676 (IRS.gov).

## ***Register with the State***

To register with the state, go to the secretary of state's website, and follow the instructions they give you. Each state will have a different process. If you require help on this, talk with your accountant.

## ***Obtain restaurant Licenses and Forms***

You must apply for, and obtain all tax accounts and licenses for your restaurant, including:

- Restaurant Licenses (Secretary of State)

**Note:** Your accountant will handle the following:

- City Sales Tax and Withholding Numbers, if applicable
- Federal Employer Identification Number (FEIN Form SS-4)
- State Employee Withholding Number
- State Sales Tax Number
- State Unemployment Number

Each city and state has different laws regarding licenses and forms. The Small restaurant Association (SBA) is a good source of information. Contact your local SBA or Chamber of Commerce for a start-up kit.

## ***File Letters of Partnership or Incorporation***

Work with your attorney to write your letter of partnership or Incorporation. This may need to be updated on a regular basis depending on your structure. It is your responsibility to maintain and manage all of these records.