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Timely Tax Tips:
Growing your business: financing options

By Cynthia Hatfield

Many of my clients' businesses started much smaller, in their homes or garages. Over time, with skill, perseverance, and a bit of luck, they grow and grow and GROW! One of the more common questions I am asked is, how to finance this growth.

In the beginning, many start-up companies' owners rely on some type of personal financing, such as credit card debt, home equity loans or family assistance. Depending on the amount of borrowing required or the length of time the funds are required, this may be an ideal short term solution. However, it does not often work for too long or for larger sums which may be required during times of intense business growth.

One of the most important things to keep in mind is that it is crucial to apply for financing prior to actually needing the money. Sad but true, banks don't like to finance companies that need the money, as by then your situation may not resemble a good credit risk. Attempt to obtain the loan or line of credit prior to needing it.

So, how do you know you need the cash? Maybe you max out your personal credit lines, or you must purchase a large amount of inventory to satisfy the demand of an important customer. Whatever the source, the first step is recognizing that your short term financing isn't working, or your need is greater than the available supply.

There are a number of different types of financing, such as credit lines, asset based loans, and Small Business Administration (SBA) guaranteed debt. Traditional bank financing such as operating lines of credit are based upon the value of your inventory and receivables. Asset based loans are an option for companies who are unable to obtain traditional bank financing. SBA loans are frequent choices of start-up companies and smaller businesses that may not be eligible for business loans through normal lending channels.

Loan proceeds can be used for most sound business purposes including working capital, machinery and equipment, furniture and fixtures, land and building (including purchase, renovation and new construction), leasehold improvements, and debt refinancing (under special conditions).

Depending on your specific situation, the bank may require a personal signature to secure the debt. This entails placing your personal assets as well as any business assets (property and receivables) on the line should your company be unable to repay the debt.

Properly utilized and planned for, incurring debt can have a positive impact on the future growth of your business. It is imperative that your business have a plan for the repayment of this debt and that your budgeted cash flow support it. The next article will contain more information on this subject. To be continued....

If you have questions or comments regarding this article, please direct them to Bainbridge resident Cynthia Hatfield, CPA Tax Manager at Zinner & Co. LLP chatfield@zinnerco.com or call her at 216-831-0733.