

How to Start a Business in Hawaii

PDF of this presentation located at: <http://go.hawaii.edu/wm3>

*“ Entrepreneurship is about identifying and
enacting
‘alternative paths to the future’ ”*

— **Richard Branson**
Virgin Atlantic Group

Small Business Development Center (SBDC)

Enhancing the economic well-being of Hawaii, one business at a time...

- ▶ **Federal & State Partnership**
 - ▶ **State of Hawaii** (UH-Hilo -special legislative allocation) and...
 - ▶ **Small Business Administration** (SBA -federal dollars)
- ▶ **America's SBDC -nationwide network**
 - ▶ over 1,000 SBDCs nationally
 - ▶ organized as 60+ networks (essentially by State or Territory)
- ▶ **Hawaii SBDC Network**
 - ▶ 5 advising centers: **Maui, Oahu, Hawaii Island(2)** and **Kauai**



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U.S. Small Business
Administration



Small Business Development Center (SBDC)

Enhancing the economic well-being of Hawaii, one business at a time...

▶ **Services:**

- ▶ Business Advising (one-on-one, no cost)
- ▶ Business-Related Research
- ▶ Workshops/Training

▶ **SBDCs addresses all life stages of a business:**

- ▶ Pre-venture exploration of a business idea
- ▶ Start-up operations
- ▶ Existing businesses
 - ▶ Scaling
 - ▶ Pivot
 - ▶ Exit Strategies



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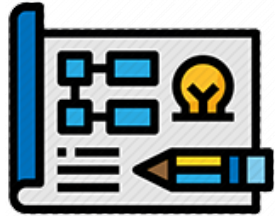


U.S. Small Business
Administration



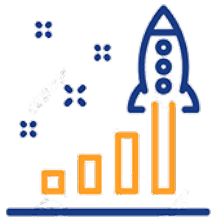
Agenda

▶ Self Assessment...



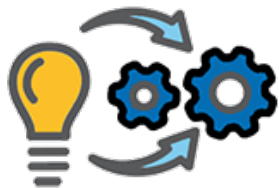
▶ PLAN YOUR BUSINESS

- ▶ Business Idea Validation/Market Research
- ▶ Business Planning
- ▶ StartUp Costs / Financing



▶ LAUNCH YOUR BUSINESS (Make it Legal)

- ▶ Forms of Organization
- ▶ Registrations / Federal-State Tax IDs
- ▶ Taxes



▶ SET UP SHOP

- ▶ Open Bank Account
- ▶ Insurance... And more

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Starting a Company feels like...

Sisyphus -Greek Mythology, punished king...

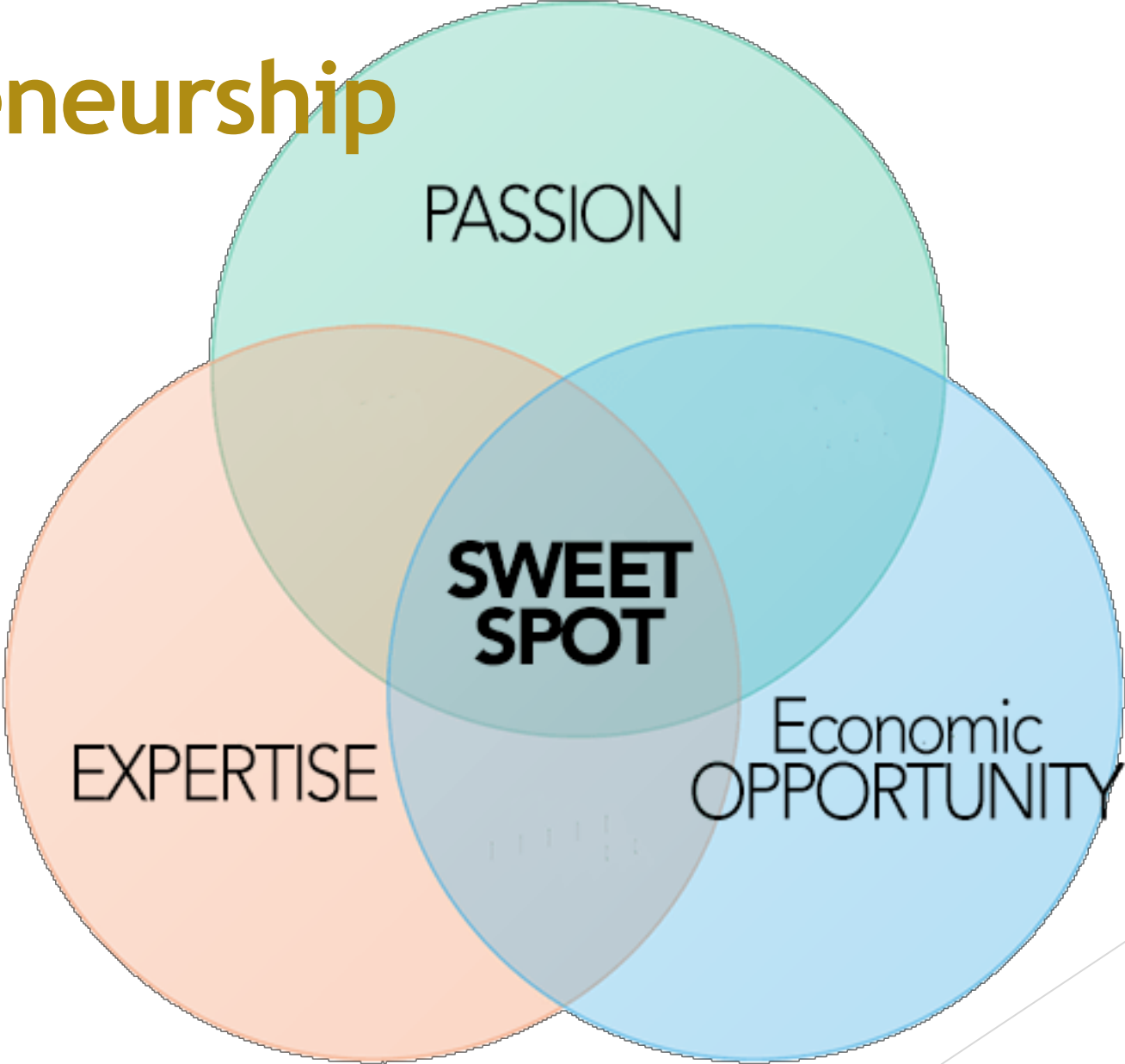


Starting a Company -Ask Yourself...

can you deal with *all* the elements of entrepreneurship, or are you expecting just the fun stuff?

**According to the SBA:
roughly 50-90% of small businesses fail
within the first five years.**

Entrepreneurship



Business Idea Validation

Ask Yourself: Is there a genuine market for your idea?

- ▶ What problem are you solving?
(value proposition)
- ▶ Who are you solving this for?
(target audience)
- ▶ Why you and not the competition?
(differentiation)



PLAN

Business Idea Validation

Four Phases -checklist:

- ▶ Documenting key assumptions
- ▶ Talking to potential customers
- ▶ Updating your assumptions
- ▶ Estimating funding needs

▶ *Handout: Business Idea Validation Checklist from Bplans.com*



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Business Idea Validation

Elevator Pitch - a marketing exercise:

- ▶ Elevator pitch =verbal, concise is key
- ▶ Describe Benefits not features
- ▶ Who is your target audience(s)
and how many are there = sales volume
where are they?
- ▶ Differentiation: Why you and not competitor?



PLAN

Business Planning
▶ business plans
are always wrong...

**Plans are
worthless,
but planning is
everything**

DWIGHT D. EISENHOWER



PLAN

Business Planning

▶ Business Plans are always wrong... *But Vital*

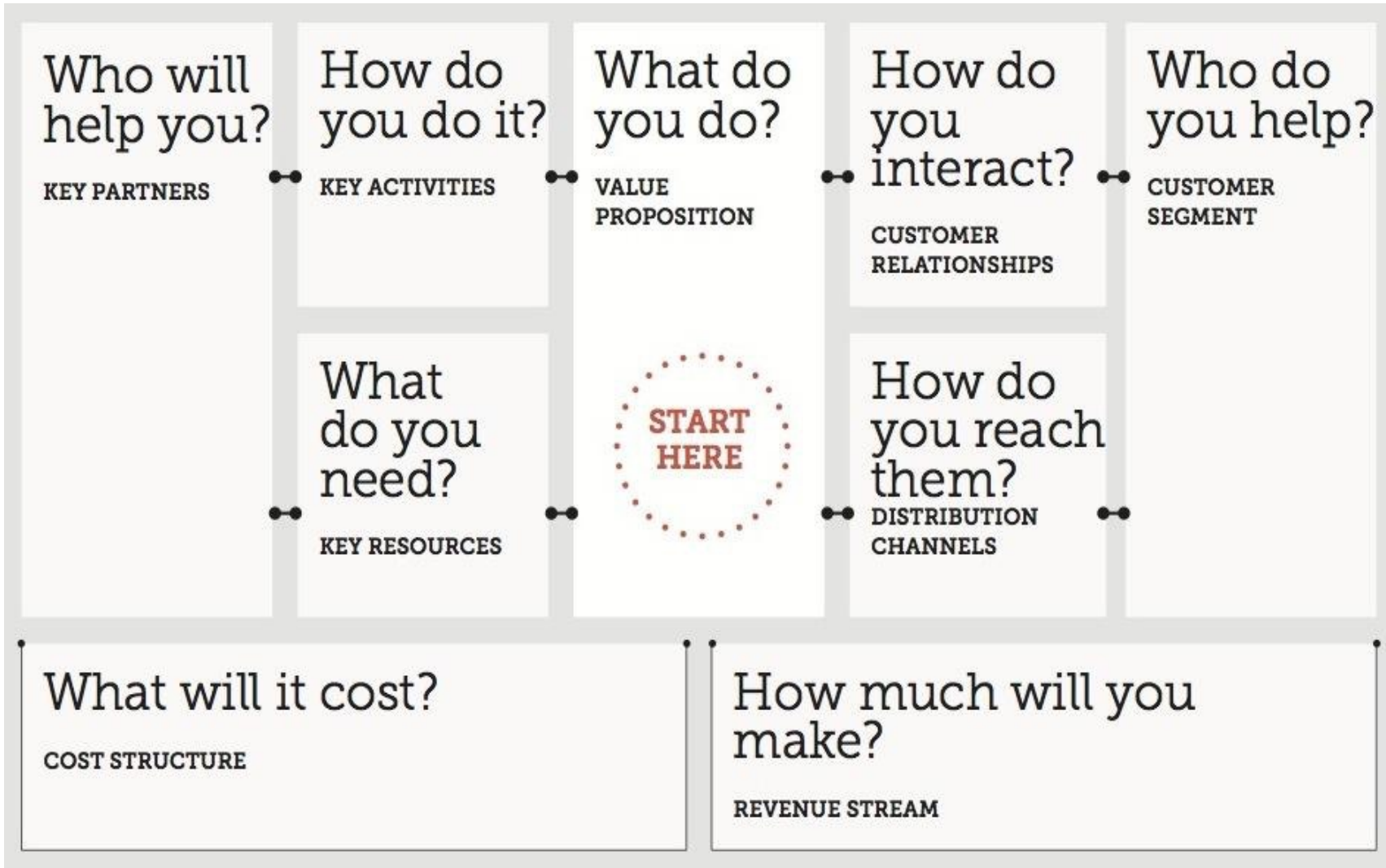
1. We're human
2. Predicting the future, we'll often guess wrong
3. Helps track/validates assumptions (hypotheses)
4. Ties unexpected to results in context of goals
5. Provides Strategy accountability
6. **Focus on approach, not document format**
The traditional Business Plan only "required" by Financing



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Business Planning

Example: Business Model Canvas - strategyzer.com



PLAN

How to Write a Business Plan

Reasons to write a 'traditional' business plan:



Investment
Funding



Bank
Loan



Strategic
Plan

...proven to help you grow your business faster



PLAN

Elements of 'traditional' Business Plan

1. Executive Summary (1-2 pages write last?)
2. Problem & Solution (real problem, willing to pay to solve)
3. Target Market & Competition
4. Marketing & Sales Plan (position, pricing, promotion)
5. Operations/Implementation Plan (how/when deliver)
6. Milestones & Metrics
7. Assumptions & Risks
8. Team & Company Overview
9. Financial Projections
 - ▶ Profit/Loss (based on sales forecast)
 - ▶ CashFlow
 - ▶ Balance Sheet
 - ▶ Spending plan/details for the cash ASK



PLAN

Business Planning

Sources of Financing

1. **Self-Funding** (reserves of at least 6 months, 12-18 months better)
2. **Lender** (banks, credit unions, CDFIs, Government)
 - ▶ 5 C's of CREDIT -evaluation framework
3. **Investor** (Friends & Family / Angel, Venture Capitalists, Shareholders)
4. **CrowdFunding** (GoFund.me, kickstarter.com, indiegogo.com)
5. *Grants* (tough for 'For-profits')

Five C's of CREDIT:

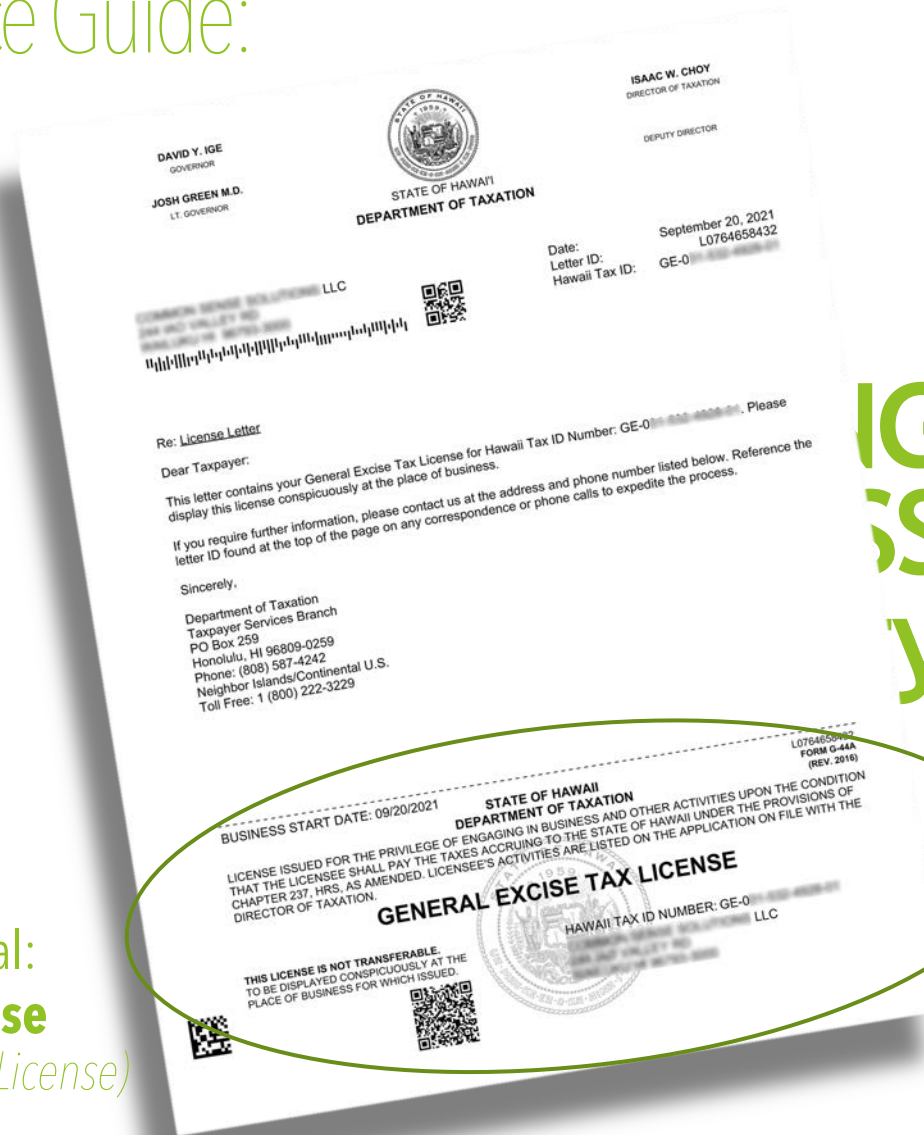
1. Character
2. Capacity
3. Capital
4. Collateral
5. Conditions



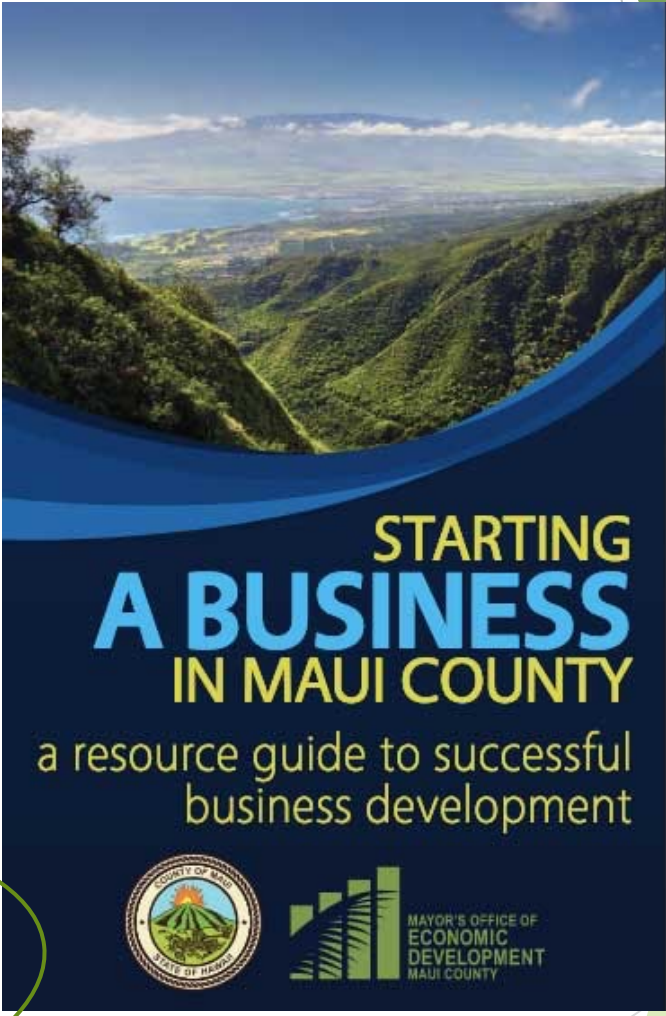
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Make it Legal (in Hawaii)

Resource Guide:



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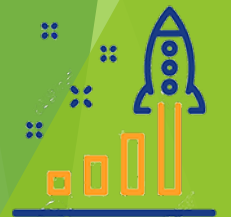


<http://go.hawaii.edu/Pf7>



Ultimate Goal:
GETax License

(Hawaii's Business License)



LAUNCH

Make it Legal (in Hawaii)

“Start Business Resource Guide” -page 9

- 1. Organizational structure -Register with DCCA**
- 2. Federal (IRS) business tax ID number**
 - also called your Employer Identification Number (EIN)
 - ▶ online <https://sa.www4.irs.gov/modiein/individual/index.jsp>
or call toll-free at (800) 829-1040
- 3. Register chosen Entity to do business in Hawaii**
 - ▶ General Excise Tax Application, form BB-1 w/DOTAX
- 4. Obtain any federal, state or county licenses or permits depending on industry/activity**
 - ▶ For Hawaii, Check DCCA’s Professions & Vocations Licensing Div
cca.hawaii.gov/pvl.



Forms of Business Organization -Hawaii

Defined by Hawaii State Law:

- ▶ Hawaii Revised Statutes (HRS)
- ▶ Includes for-profit corporations created under HRS Chapter 414, non-profit corporations created under HRS Chapter 414D, and professional corporations created under HRS Chapter 415A.

Determines:

- ▶ Amount of internal administration required
- ▶ Tax licenses and Taxes to pay (which tax returns to file)
- ▶ How Liabilities are handled and who owns the organization's assets



Forms of Organization (Register w/ DCCA)

▶ Sole Proprietorship -(tradenname -dba)

- ▶ No liability nor tax distinction between the owner and the business
- ▶ Personal risk but simple administrative set-up and low cost
- ▶ If business name desired, need: *form T-1 for tradenname registration*

▶ Partnerships -General, Limited Liability

- ▶ No legal distinction between the owner(s) and the business
- ▶ *Registration Statement, form GP-1*
- ▶ *Statement of Qualification, form LLP-1*

▶ Limited Liability Company (LLC)

- ▶ Business legally (liability) separate from owner(s) But pass-thru tax entity
- ▶ Simple registration and administration; distribute profits as see fit
- ▶ *Articles of Organization, form LLC-1*

▶ Corporation - “S” or “C” or “B”

- ▶ Business legally (liability) separate from owner(s) w/ possible tax savings
- ▶ Extra Admin requires scheduled meetings, minutes, by-laws, stock maintenance
- ▶ *Articles of Incorporation, form DC-1*
- ▶ *Non-Profit Articles of Incorporation, form DNP-1*

▶ *See HANDOUT: Legal Entity Cross Reference Sheet*



Forms of Organization

(Limiting Liability-Corporate Veil...)



- ▶ Sole Proprietorship -(tradenname -dba)
- ▶ Partnerships -General, Limited Liability



- ▶ Limited Liability Company (LLC)
- ▶ Corporation - "S" or "C" or "B"



Make it Legal (in Hawaii)

Online portal: **Hawaii Business Express** on eHawaii.gov

The screenshot shows the Hawaii Business Express website. At the top, there's a navigation bar with links for Welcome, Start, Manage, Search & Buy, My Dashboard, Log In, and What's new! (with a COVID-19 badge). Below the navigation bar, the main header includes the Hawaii state seal and the text: "Business Registration Division, Department of Commerce & Consumer Affairs", "Hawaii Business Express", and "Start, manage, and learn about Hawaii businesses". A search bar is prominently displayed with the placeholder text "Enter a business name..." and a "Search" button. Below the search bar, a white box contains the text: "Got an idea for a business in Hawaii but unsure what else you need? Visit our [Business Action Center](#)". Below this, there are four light blue panels, each with an icon and a list of services:

- Start** (pencil icon):
 - Register a new business
 - Reserve a business name
 - Register a new trade name or mark

Get started
- Manage** (gear icon):
 - File your annual report
 - Change an existing business
 - Renew trade names / marks

Learn more
- Search & Buy** (magnifying glass icon):
 - Search businesses, trade names & marks
 - Buy documents

Search now
- My Dashboard** (pie chart icon):
 - Track all of your filings
 - See what's due
 - View purchased & approved documents

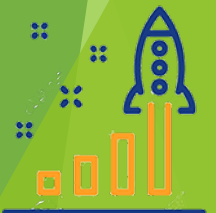
Learn more



Federal (IRS) Employer ID Number (EIN)

(aka Federal Tax ID Number)

- ▶ **EIN identifies your business to IRS and is used to file federal tax returns. Needed if:**
 - ▶ Have Employees
 - ▶ Corporation, S-Corp, Partnership -or- (LLC filing partnership or corporate income tax return)
 - ▶ A single-member LLC that is a disregarded entity that does not have employees and does not have a federal excise tax liability does not need an EIN
- ▶ <https://sa.www4.irs.gov/modiein/individual/index.jsp>



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Hawaii Tax ID

General Excise Tax (GET) License + Employers Withholding TaxID

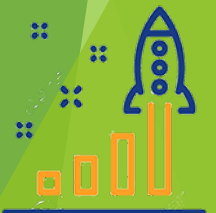
▶ Form BB-1, Hawaii Basic Business Application

- ▶ Applicant & TaxID is the Entity
- ▶ one-time \$20 registration fee
(additional fees and licenses available: transient accommodations, cigarette and tobacco, liquor)

- ▶ online DOTAX (2-4 days)
https://hitax.hawaii.gov/_/#1

- ▶ online HBE.ehawaii.gov (3-5 days)

- ▶ by postal mail or physical drop-of (3-4 weeks)
https://files.hawaii.gov/tax/forms/2018/bb1_f_packet.pdf



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Taxes

- ▶ **General Excise Tax (GET) State Tax** (and Use Tax)
 - ▶ Transient Accommodations
 - ▶ Rental Motor Vehicle, Tour Vehicle, and Car-Sharing Surcharge Tax
- ▶ **Income Tax -State**
- ▶ **Income Tax -Federal**
- ▶ **Self-Employment** (Self Social Security/Medicare)
- ▶ **Employers Tax Responsibilities** (Payroll Taxes -Federal & State, withholding responsibilities, quarterly submissions)
 - ▶ *Unemployment Insurance*
 - ▶ *Workers Compensation Insurance*
 - ▶ *Workers Disability Insurance*

Taxes -Hawaii General Excise Tax

- ▶ privilege tax imposed on business activity
- ▶ imposed on gross revenue of business including costs passed on to customer
- ▶ paid monthly, quarterly, or semi + annual
- ▶ Rates:
 - 0.5% on **wholesaling** activities
 - 4.0% on **retail** activities
 - + county surcharges (rail-Oahu, Big Isle)

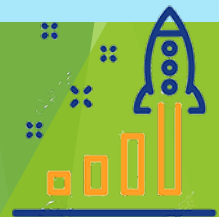
An Introduction to
the General Excise Tax



State of Hawaii
Department of Taxation

David Y. Ige
Governor

Maria E. Zielinski
Director of Taxation

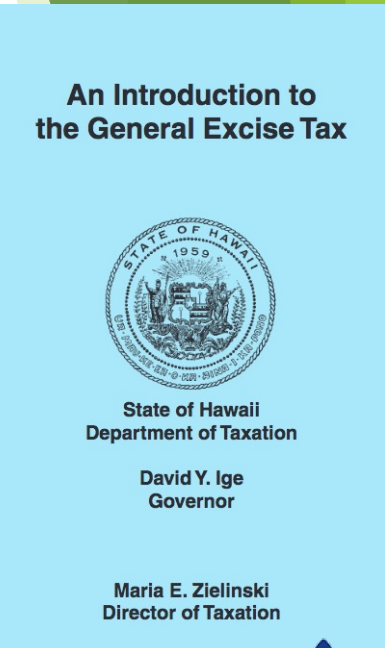


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Taxes -Hawaii General Excise Tax

- ▶ Rates: state= 4.0% on retail activities
- + county surcharges
- + pass on percentage

County	Rate	PassOn...	Effective Date
City & County of Honolulu	4% +0.50% =	4.7120%	Jan 1, 2007 to Dec 31, 2030
County of Kauai	4% +0.50% =	4.7120%	Jan 1, 2019 to Dec 31, 2030
County of Hawaii	4% +0.50% =	4.7120%	Jan 1, 2020 to Dec 31, 2030
County of Maui	4% +0.00% =	4.1666%	No county surcharge



Taxes -Self Employment

Social Security (paying it forward)

- ▶ Employer matches Employee
6.2% of earnings paid by Employer
6.2% of earnings withheld from Employee

--VS--

- ▶ **Self-Employed pays:
12.4% of earnings**

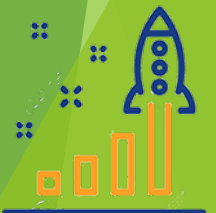
Medicare (paying it forward)

- ▶ Employer matches Employee
1.45% of earnings paid by Employer
1.45% of earnings withheld from Employee

--VS--

- ▶ **Self-Employed pays:
2.9% of earnings**

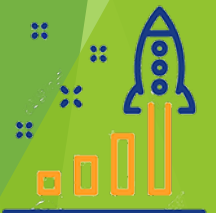
**Total - Self-Employed Tax
pays:
15.3% of earnings**



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Taxes (very rough planning percentage)

- ▶ **General Excise Tax (GET) -State**
 - ▶ 4% Gross Revenue (sales)
- ▶ **Income Tax -State & Federal**
 - ▶ State: 2%-11% based on bracket of Net Earnings+Tips
 - ▶ Federal: 10%-40% based on bracket of Net Earnings+Tips
- ▶ **Social Security / Self Employment -Federal**
 - ▶ 15.3% Net Earnings+Tips



Questions?

UNMUTE -or type into Chat Box now..., after zoom email to Library@hisbdc.org
PDF of this presentation located at: <http://go.hawaii.edu/wm3>



SMALL BUSINESS DEVELOPMENT CENTER (SBDC) -Maui

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590 Lipoa Pkwy, Suite 264
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No Cost
Business Advice
*Enhancing the
economic well-being
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No Cost Business Advice

*Enhancing the economic
well-being of Hawaii, one
business at a time....*

-Maui

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<https://www.hisbdc.org/Locations/Maui.aspx>

-Oahu

677 Ala Moana, #612
Honolulu, HI 96813

Phone: (808) 945-1430

<https://www.hisbdc.org/Locations/Oahu.aspx>

Contact Us...

For questions, assistance or virtual appointments:

-East Hawaii (Hilo)

100 Pauahi Street, Suite 109
Hilo, HI 96720

Phone: (808) 933-0776 Fax: (808) 933-0778

<https://www.hisbdc.org/Locations/HawaiiIslandHilo.aspx>

-West Hawaii (Kailua Kona)

73-970 Makako Bay Drive, Suite 108
Kailua Kona, HI 96840

Phone: (808) 333-5000 Fax: (808) 333-5900

<https://www.hisbdc.org/Locations/HawaiiIslandKailuaKona.aspx>

-Kauai

2970 Kele Street, Suite 101
Lihue, HI 96766

Phone: (808) 241-3148 Fax: (808) 241-3299

<https://www.hisbdc.org/Locations/Kauai.aspx>



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